RADIUS® INSIGHT

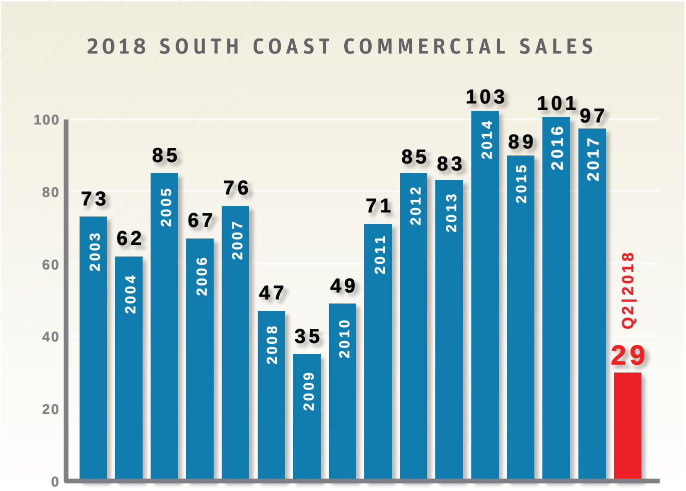
SOUTH COAST COMMERCIAL REAL ESTATE | Q2 2018

COMMERCIAL SALES SUMMARY

Second Quarter Sees Softening Sales

As the second quarter of 2018 came to close, market activity, as expected, did not seem to change much from the first quarter. Overall, the second quarter's 15 sales brought the total number of sales for the first half of the year to 29. That is a sharp decline compared to the 49 commercial sales we recorded in the first half of 2017.

Total Q2 sales volume was approximately $50.2 Million compared to $69.5 Million this time last year, with the largest transaction of the quarter at 3045 De La Vina St. The 18,000 SF office building that shares a parking lot with Trader Joe's at the upper end of the emerging De La Vina corridor traded for $9.5 Million. In fact a majority of Q2 sales came from Santa Barbara office properties which included 6 sales for a total of $21.4 Million.



Excluding sales of apartments. Prior 15-year average = 74.9 sales/year.

So why has the transaction total decreased?

Chalk it up to a dearth of inventory compounded by a flattening of the market. Truth be told, the market in Santa Barbara has been flat since 2016. Additionally, there seems to be more hesitation from investors since we are in year 10 of a bull market, and as we all have seen, markets are cyclical. While there remain willing investors on the sidelines with plenty of cash to invest, politics, rising interest rates and the unknown as to when this bull market will end has made many more cautious.

Market positives

There are still many exchange buyers looking for investment property in Santa Barbara. We are seeing an influx of LA buyers looking for shelter in Santa Barbara real estate. This should continue as long as prime, long-term investments are sold and the sellers are faced with the decision to pay their substantial capital gains taxes or exchange and face the music another day. We also are still seeing prime, well located, trophy properties trading to long term holders paying cash for these properties.

SOLD | 3045 DE LA VINA ST., SANTA BARBARA (TRADER JOE'S PARKING LOT) | RETAIL | 18,200 SF | $9.5 MILLION

Interest Rates

Borrowing rates are starting to impact market decisions now more than during the last several years. Ten year treasury rates, frequently used as the baseline index to determine mortgage rates at the bank, have increased over 1% in the last two years. This isn't a shock to the market, but the trend is starting to take effect. Most lenders are quot-

Commercial Sales Continued on P.2

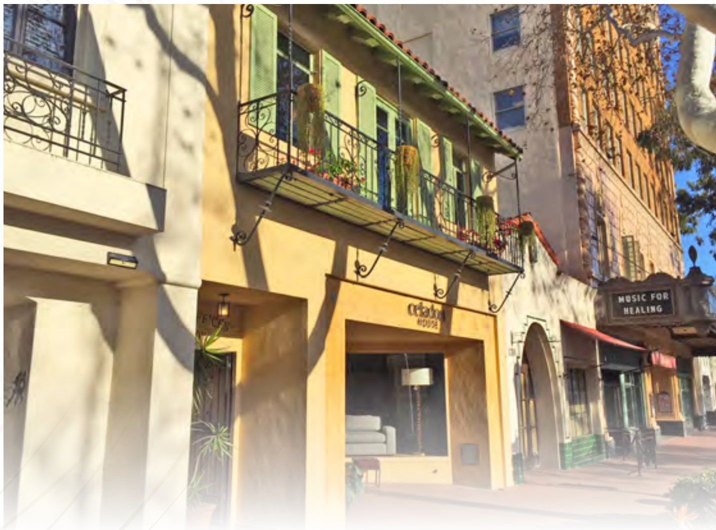
COMMERCIAL SALES SUMMARY CONT.

Continued from P.1

ing rates in the 5.0%–5.5% range for 7–10 year loans for commercial properties while two years ago it was in the low 4's.

Development

The extended entitlement and permitting process at the city (nothing new) and rising cost of construction have had a significant impact on development projects. In the last 2–3 years, we have seen construction costs increase 20%–30%. The reason for the increased costs is a result of simple economics, increased demand and limited supply of labor and materials. And now threatened trade wars and tariffs are starting to take their toll. We expect this increase in construction costs to affect land costs in the future.

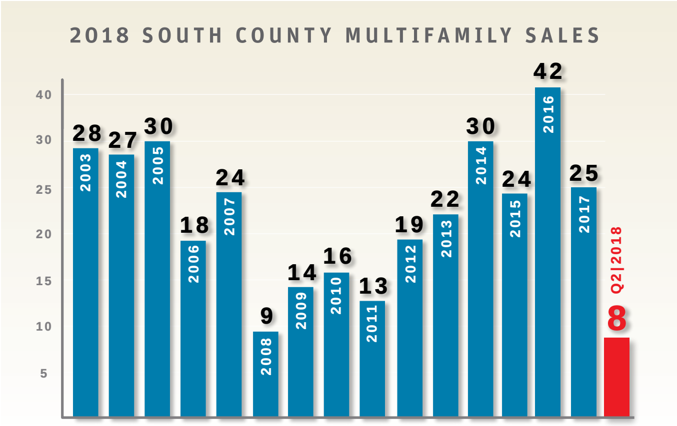


SOLD | 1220 STATE ST., SANTA BARBARA
RETAIL/OFFICE | 5,786 SF | $3,250,000

MULTIFAMILY SALES SUMMARY

South County

The South Coast multifamily market continues to remain strong and should stay this way through 2018. Renters make up a large portion of the region's population, with vacancy in the greater Santa Barbara area below 2% as it has been since 2011, which of course is very attractive to investors. Demand for rental units is expected to remain high due to economic, demographic and lifestyle trends, including the continuing trend of baby boomers and empty nesters choosing to downsize.



Sales of Multifamily properties 5+ Units in size

SOLD | DEL PLAYA PORTFOLIO, ISLA VISTA (66 UNITS)
$76 MILLION

We expect rental rates remain strong, with slight increases depending on location. Additionally, the new tax law that went into effect at the end of last year may continue to dampen home sales, especially as more millennials continue to enter the market to buy only to see that it may be more attractive to rent.

There were 21 total sales of multifamily property on the South Coast during the second quarter. Five of those were larger than 5+ units in size, bringing total transactions through the first half of the year to 8, equaling where we were this time last year. Total sales volume for the quarter amounted to just over $110 Million. Additionally there are currently 15 properties 5+ units in size on the market.

Multifamily Sales Continued on P.3

MULTIFAMILY SALES SUMMARY CONT.

Continued from P.2

Again, we remain in a very high-demand, low-supply market. There are many investors waiting on the sidelines, including 1031 exchange buyers looking for larger assets. Well located properties in good condition continue to sell quickly.

The largest sale of the year to date closed during Q2. The 37 property portfolio involved 66 residential income units in Isla Vista which sold for $76 Million. The buyers of the portfolio also simultaneously purchased a 5-unit property at 6777 Del Playa Dr. for $4.6 Million bringing their total acquisitions to more than $80 Million.

Certainly Isla Vista continues to be a draw for investors given the strength and popularity of UCSB, with many waiting in the wings for opportunities to place their money.

Highlight Sales

- **37 Property Portfolio (33 of them on the ocean side of Del playa), Isla Vista —** 66 units, $76,000,000, 5/1/18
- **6777 Del Playa Dr., Isla Vista —** 5 units, $4,600,000, 5 units, $4,600,000, 5/1/18
- **215 W. Arrellaga St., Santa Barbara —** 10 units, $3,700,000 , $370,000 PPU, 3.4% CAP, 4/17/18
- **712 W. Anapamu St., Santa Barbara —** 8 units, $2,170,000, $271,250 PPU, 2.89% CAP, 5/20/18

North County

The North County market remains strong in Lompoc and Santa Maria with a total of 11 total sales in Q2, all of which were 2–4 units in size. Just as in the South, it's the same story here with a very low supply of inventory of larger properties to satiate investors. We currently count only (2) 5+ unit properties in escrow, with only one available 5+ unit listing that we know of.

Ventura

The story of low inventory and high demand also continues in Ventura County. There is a thirst for properties particularly in Ventura and Oxnard. Still there were a few very sizable sales of larger apartment properties during the quarter, most notably The Capes at Ventura at 760 S. Hill Rd. This was the largest sale of the quarter, with the 400-unit property trading in May for $100,000,000 ($250,000 PPU). Another notable sale was the 10-unit property at 6025 Woodland, Ventura which received multiple bids and sold for over asking price at $3,270,000 ($272,500 PPU). In total there were 4 total sales of 5+ unit properties during the quarter. We know of (2) 10+ unit properties currently in escrow.

Ventura vacancy continues to stay below 3%, where it has been for years, highlighting the market's strong demand for rentals. We are also seeing a slight increase in rents in the market depending on location.

SOLD | 760 S. HILL RD., VENTURA (CAPES AT VENTURA)
400 UNITS | $100 MILLION ($250,000 PPU)

Highlight Sales

- **The Capes, 750 S. Hill Rd., Ventura —** 400 units, $100,000,000, $250,000 PPU, 5/15/18
- **750 Clyde River Pl., Oxnard —** 136 units, $48,250,000, $354,779 PPU, 4/30/18 (55+ living community)
- **6025 Woodland St, Ventura —** 12 units, $3,270,000 (Sold over asking!), $272,500 PPU, 3.8% CAP, 5/8/18

SOUTH COAST LEASING SUMMARY

Q2 Quick Stats

Vacancy

		Q1|18	Q2|18	
OFFICE	Santa Barbara	5.9%	6.6%	▲
OFFICE	Goleta	7.8%	9.9%	▲
OFFICE	Carpinteria	9.4%	7.3%	▼
INDUSTRIAL	Santa Barbara	0.4%	0.5%	▲
INDUSTRIAL	Goleta	4.0%	5.1%	▲
INDUSTRIAL	Carpinteria	1.5%	3.6%	▲
RETAIL	Santa Barbara	3.2%	3.7%	▲

Quarterly Absorption (SF)

		Q2 AVAILABLE SPACE	Q1-2 ABSORPTION
OFFICE	Santa Barbara	337,400	*-37,900*
OFFICE	Goleta	422,600	*-88,700*
OFFICE	Carpinteria	36,900	*7,100*
INDUSTRIAL	Santa Barbara	24,000	*-3,600*
INDUSTRIAL	Goleta	214,500	*-44,900*
INDUSTRIAL	Carpinteria	46,700	*-26,700*
RETAIL	Santa Barbara	390,300	*-58,200*

Avg. Gross Asking Rates ($/SF)

		Q1|18	Q2|18	
OFFICE	Santa Barbara	$3.04	$3.17	▲
OFFICE	Goleta	$1.90	$1.91	▲
OFFICE	Carpinteria	$1.86	$1.83	▼
INDUSTRIAL	Santa Barbara	$2.38	$2.67	▲
INDUSTRIAL	Goleta	$1.63	$1.64	▲
INDUSTRIAL	Carpinteria	$1.40	$1.82	▲
RETAIL	Santa Barbara	$4.16	$4.40	▲

Avg. Gross Achieved Rates ($/SF)

		Q1|18	Q2|18	
OFFICE	Santa Barbara	$2.93	$2.88	▼
OFFICE	Goleta	$1.98	$1.88	▼
OFFICE	Carpinteria	$2.02	$2.11	▲
INDUSTRIAL	Santa Barbara	$1.92	$2.02	▲
INDUSTRIAL	Goleta	N/A*	$1.80	
INDUSTRIAL	Carpinteria	$1.50	N/A*	
RETAIL	Santa Barbara	$3.53	$3. 75	▲

**No new leases during the quarter*

Office

Santa Barbara's office vacancy ticked back up from 5.9% in Q1 2018 to 6.6% in Q2, roughly where 2017 ended (6.7%). While this is one of the highest vacancy rates we've seen for this sector over the last 17 years, when compared to other South Coast commercial sectors a 6.6% vacancy is not overly noteworthy. Still, we should continue to keep an eye on Santa Barbara's office market. Average achieved gross rates dropped slightly from $2.93/SF in Q1 to approx. $2.88/SF in Q2. There were roughly 23 new leases during the quarter with the largest being 5,092 SF at 200 E. Carrillo subleased by Bright Market LLC. There remain 16 available office spaces in Santa Barbara larger than 5,000 SF, the largest being approx. 19,738 SF at 3820 State St., the prominent two-story building across from La Cumbre Plaza.

In Goleta, office vacancy has risen since the last quarter from 7.8% to 9.9% by the end of Q2. As is typically the case in Goleta, the office market is dictated by a few large vacancies. In this case the massive 112,480 SF office/R&D building at 71 S. Los Carneros came on the market in June, offsetting (and then some) the approx. 110,000 SF total space leased during the quarter. The largest new lease of the quarter was the 30,863 SF lease to Seek Thermal, Inc. at 6300 Hollister Ave. There remain 14 spaces for lease over 5,000 SF. Average achieved gross rates have decreased from approx. $1.98/SF in Q1 to $1.88/SF in Q2.

To the south, Carpinteria's office vacancy decreased from 9.4% in Q1 to 7.3% in Q2. Average achieved gross rates increased slightly from $2.02/SF in Q1 to $2.11/SF in Q2. While back in 2015 rates were below $1.50/SF Gross and vacancy was around 23%, it does seem rates have now settled above $2.00/SF Gross for the foreseeable future. One contributing factor to this increase is a handful of multi-million dollar renovations improving the overall quality of office product in this market. The most notable lease of the quarter was Starr Indemnity and Liability leasing 10,395 SF at 1001 Mark Ave. There are currently deals pending on the largest available space in Carpinteria (19,000 SF) which should further decrease the vacancy rate in this low-inventory office market.

Industrial

Santa Barbara industrial vacancy increased from 0.4% in Q1 to 0.5% in Q2. This is the tightest of all industrial submarkets in the South Coast and this very small increase will not have an effect on lease rates or overall vacancy. Since Q2 2017, average gross achieved rates have ranged between $0.90/SF and $2.02/SF (Q2 2018) with minimal transactions given the low inventory in this submarket. The influx of a new cannabis industry coupled with tenants being pushed out of the Funk Zone has helped drive rates higher, though we feel rates have stabilized.

Nearby, Goleta's industrial vacancy has risen since Q2 2017, going from 0.9% to 4.0% in Q1 2018 and 5.1% in Q2 2018. Total vacant space at the end of Q2 was just over 214,000 SF. There is a good deal of activity in the market which should decrease over the next two quarters. Even with this vacancy increase we believe that lease rates will remain level over the rest of this year. With the pending airport industrial project and the four industrial Cabrillo buildings due to come online in 2019/20, this will provide much needed relief for industrial tenants who currently have very few options.

Carpinteria's industrial market is the smallest in the South Coast, and the vacancy rate increased from 0.2% a year ago to 1.5% in Q1 and 3.6% in Q2. Current vacancies include just three industrial properties with two of those accounting for 44,000 SF of the total 46,730 SF

Leasing Continued on P.5

SOUTH COAST LEASING SUMMARY CONT.

Continued from P.4

available. There were no new leases in Q2. Average gross achieved rates have remained below $1.50/SF since Q2 2017.

Retail

At the end of Q1, there were 79 retail properties available for lease totaling 332,057 SF, with the vacancy rate at 3.2%. By the end of Q2, inventory rose to a whopping 96 properties totaling 390,348 SF with the vacancy rate increasing to 3.7%. That's a 17% increase in the amount of retail space currently on the market and a 21% increase in the number of available properties. A handful of mid- to large-size properties came on the market during the quarter contributing to the vacancy increase, including the 17,000 SF Staples building prominently located at 410 State St.

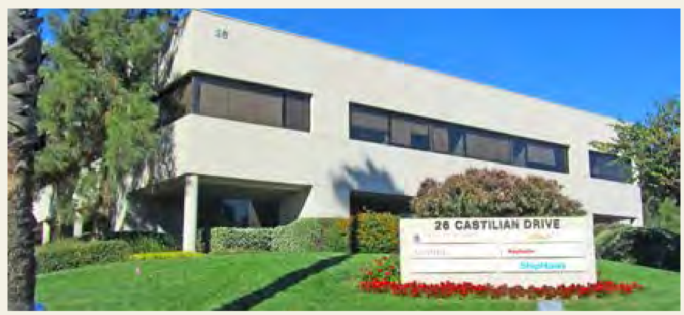
During Q2 there were 14 new retail leases executed totaling 63,515 SF, a sizable increase in square footage versus Q1 when only 18,507 SF was leased. This is largely attributable to a 36,572 SF lease to Maserati & Alpha Romeo of Santa Barbara at 300 Hitchcock Way. The average gross achieved rate increased from $3.53/SF in Q1 to $3.75/SF by the end of Q2.

Of course Target remains one of the highlight retail stories this year with their much-anticipated entry into Santa Barbara, albeit with a smaller foot-print in the 34,000 SF Galleria property at the Corner of State and La Cumbre. Originally slated to open this October after an extensive remodel, plans recently shifted to a 2019 opening. Additionally the retailer confirmed in July they will take over the Kmart location near the Calle Real Marketplace with plans to open a traditional-size (132,000 SF) store also in 2019.

Q2 Leasing Highlights

LEASED | 6300 HOLLISTER AVE., GOLETA
OFFICE | APPROX. 30,863 SF

In one of the largest South Coast leases of the quarter, Seek Thermal took approximately 30,863 SF of renovated Office/R&D space near the Santa Barbara Airport.



LEASED | 26 CASTILIAN DR., GOLETA
OFFICE | APPROX. 11,979 SF

Located near the Camino Real Marketplace in Goleta, this approx. 11,979 SF updated open office space was leased by Toyon Research Corporation in April.

LEASED | 1001 MARK AVE., CARPINTERIA
OFFICE | APPROX. 10,395 SF

Spaces like this completely remodeled office property, leased to Starr Indemnity & Liability in April, are contributing to the overall quality of office product in the Carpinteria market.

LEASED | 300 HITCHCOCK WAY, SANTA BARBARA
RETAIL | APPROX. 36,572 SF

Maserati & Alpha Romeo of Santa Barbara signed a lease in May with the dealership potentially opening in December upon completion of construction. Rendering pictured above.

SPECIAL REPORT ON RETAIL

State Street's Sad Song Plays On

In an effort to more accutely assess our State Street retail vacancy situation, Radius conducted a visual inspection and research of the downtown State Street retail corridor (400–1300 blocks) during June 2018. The vacancy data was calculated using State Street-facing storefronts only. Some of those spaces may be leased and we are not aware of it.

It's no secret there remains much discussion and debate about just exactly what's going on in our once-bustling downtown corridor. The one thing we can all agree on is the tale of State Street retail is playing out like a re-recording of Willie Nelson's iconic "Always on my Mind". Ultimately it's a song of angst and perhaps regret, with no definitive solution on the table.

"Maybe I didn't love you / Quite as often as I could have / Maybe I didn't treat you / Quite as good as I should have..." Downtown feels a little like that. Maybe there's plenty of blame to go around, so pointing fingers isn't helpful except to say the issue is all of ours.

It's hard not to let a little emotion and a lot of opinion affect our views on this subject. The fact is there is no one culprit to blame and no single quick fix to be implemented. Certainly it's worth recapping a number of contributing factors and potential solutions:

Amazon Effect | The face of retail is shifting speedily online and the amount of square footage needed in the modern brick-and-mortar footprint is much smaller now. Retailers are focusing more on "experience" more than ever. The downtown retail core of State Street is 13 blocks from the beach to the Arlington Theater, a very large area to sustain. We need to be willing to repurpose some of the excess retail product. A number of developers will likely propose some mixed use developments for larger parcels on State Street. As a city we need to be open and receptive to developers willing to take a risk and proposing a major repositioning on State Street.

Homeless Issue | This is a very complex issue that didn't happen overnight, nor will a solution. Santa Barbara is not alone, other cities have implemented effective strategies worth emulating.

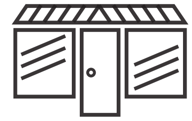
Permitting/Tenant Improvements | Time, cost and uncertainty of the permitting/approval process remains a barrier to many creative tenants and property owners. Many feel the process has become so difficult that it's just easier to do an "as-is" deal with a less exciting tenant.

Speaking of Property Owners | You have more influence than you think. It's going to take proactive steps and willingness to take risks and re-invest in upgrading your properties to revitalize downtown and encourage creative tenants in turn to take a risk. Other property owners will take notice as well.

The Real Numbers

Let's take a step back and look at a few core figures, always helpful when trying to assess a problem from a purely unbiased standpoint. In our survey conducted in June 2018 between the 400 and 1300 blocks of State Street, Radius found that of approximately 256 storefronts, roughly 37 were vacant (14.5% vacancy). Square footage vacancy is a little harder to ascertain and we are continuing to work on a meaningful figure. That said, consider that of the approximately 295,000 SF of space currently available on the market, approximately 65% (190,000 SF) is due to Macy's departure from

Special Report Continued on P.7



256

EST. NUMBER DOWNTOWN STATE STREET STOREFRONTS

37

EST. VACANT STOREFRONTS TOTALING EST. 295,000 SF

14.5%

EST. STOREFRONT VACANCY RATE

SPECIAL REPORT ON RETAIL

Continued from P.6

Paseo Nuevo and Saks OFF 5th's impending retreat from their prominent three-story building. Another 17,000 SF recently came on the market with the announcement that Staples will be vacating 410 State St.

Who will fill these gaping holes? Ideas continue to be bandied about, from a combination of long-term retail/office/residential models to more short-term solutions with smaller tenants including a Christmas village planned for the Macy's building this holiday. Permanent solutions will require a concerted effort and cooperation between the city and property owners, and we shall see how that progresses.

But it's clear, despite Target finally headed to Upper State Street and Goleta, the days of hoping for larger national retail tenants to shoulder the load are behind us. While they are in the best position to combat the trend to online shopping, many are no longer interested in the overhead of larger footprints and again, their focus is increasingly toward creating a quality experience versus maintaining row after row of racks and shelves.

Lease Rates AND Space Size Matter

Lease rates on State Street are definitely part of the equation. Again, another major issue is the size of most spaces on State Street. Most spaces on State Street are long and narrow, tend to be 2,500 SF and larger. Most retailers in this modern climate would prefer to have closer to 750 SF spaces. This has caused a more sizeable reduction in lease rates for larger spaces.

Many spaces on State Street also have second floor spaces or basements; this is frankly of little value to retailers. Typically it is not possible to lease the basement or second floor space to a different tenant. We believe State Street rates for spaces which are 100% usable and efficient are sustainable. If a space has some unique intricacies the lease rate needs to be reflective of those inefficiencies.

Landlords are paying attention to rates. The Staples building at 410 State St. recently came on the market for $2.50/SF NNN ($0.50) which is a very attractive rate for a newer building with parking on State Street. Hopefully this attractive rate will help fill this 17,000 SF vacancy.

Other communities are having similar discussions about the sustainability of rates. Thankfully our community is not made up of large strip malls with big box anchors. We are much better positioned than those communities, plus we have the Pacific Ocean.

Community Pride

As a community we need to support our retailers. Period. We hear this time and time again, and we see this in many other communities. Yes, we have the Downtown Organization and First Thursdays and a host of other involved parties and events doing what they can to promote "shop local" and invigorate community pride. But none of that means anything if we don't go to dinner, go shopping and spend time on State Street.

If we want to combat this issue and see a return to a thriving State Street corridor, we also need to let go of a little pride and continue to be open to new ideas and those who are willing to take creative risks. The issue is clearly complex, and again, no one solution is going to fix it. It's more important than ever that, for the sustainable health and vitality of our city, more voices need to be allowed the space to be heard and open minds need to prevail. Yes, cannabis dispensaries make people nervous. Housing on State Street seems odd to some. Office tenants taking up traditional retail space is hard for others to swallow. The homeless issue is difficult to look in the face. The fact is, times are-a-changing. And downtown local retailers are waiting patiently, but for how long?

The Staples building at 410 State St. is downtown's latest large retail property to go on the market (17,000 SF).

For Lease signs and approximately 37 vacant or available spaces pepper Santa Barbara's once-vibrant shopping and dining corridor.

The massive 146,000 SF vacant Macy's building awaits a new lease on life. Could some combination of retail/office/residential be the solution for this and other State Street space?

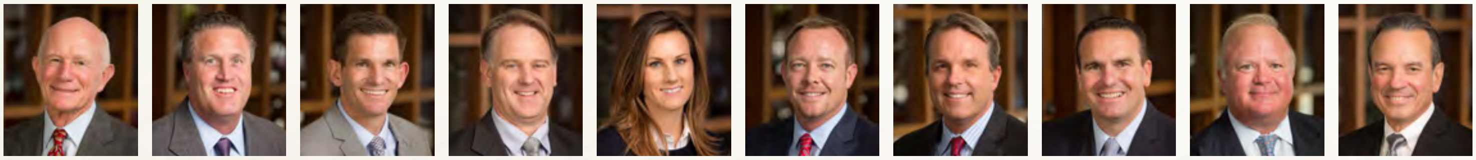
The Radius Team. We can handle it.

Seeking a high profile storefront or a spacious warehouse to grow your business? Maybe you're looking for a trophy investment or dreaming of owning your own ranch or vineyard? Or perhaps you hope to retire with a healthy return from the sale of your business and/or property? Chances are, we can help with all of that. Call on Radius today to put our broad range of brokering solutions powered by our diverse team of local experts to work for you. We can handle it.

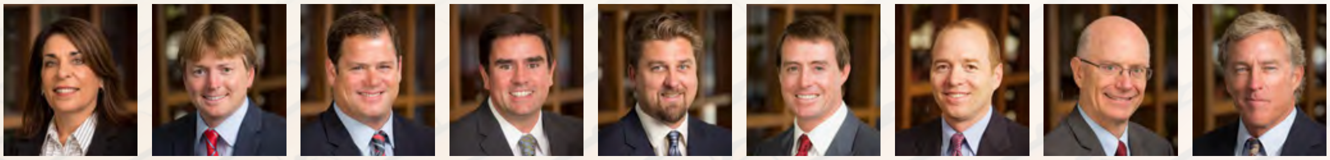
RADIUS® Hagelis Retail Advisors

RADIUS® Commercial Real Estate & Investments

RADIUS® Ranch, Vine & Ag



Steve Brown | Mike Chenoweth | Gene Deering | Rob Devericks | Lisa Engel Shields | Brad Frohling | Arick Fuller | Paul Gamberdella | Steve Golis | Bill Hagelis



Linda Hagelis | Rob Hambleton | Austin Herlihy | Brian Johnson | Jon Ohlgren | Chris Parker | Robert Rauchhaus | Bob Tuler | Jim Turner

205 E. CARRILLO ST. SUITE 100 | SANTA BARBARA CA 93101 | 805.965.5500 | RADIUSGROUP.COM