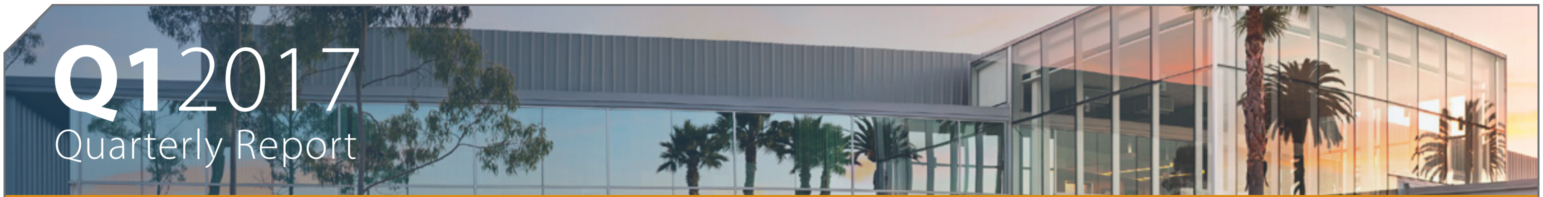

SOUTH COAST COMMERCIAL REAL ESTATE

COMMERCIAL SALES

	Q1'17	vs 2016*	vs Q1'16
Sales	**24**	**0%**	**- 8%**
Volume	**$104 M**	**+ 26%**	**- 11%**

* Annualized

Commercial sales on the South Coast in Q1 maintained the momentum of 2016, and again most of the activity was focused in Santa Barbara. With 19 sales, Santa Barbara had its busiest quarter in three years, totaling $77.7 million, a 48% increase in volume compared to Q1 of last year. The office floors of Santa Barbara's most visible landmark, the Granada Tower, were purchased by a local investor for $8.6 million. A local investor purchased the El Torito building at 29 E Cabrillo Blvd for $7.3 million with plans for a new waterfront restaurant. In midtown, the Trader Joe's building at 3025 De La Vina St sold to an investor for $12.5 million.

In contrast to Santa Barbara's strong activity, Goleta and Carpinteria combined produced five transactions during Q1 totaling $26 million, a 60% decrease in dollar value compared to the same period in 2016. The most notable sale in Goleta was the investor purchase of 26 Castilian Dr for $13.6 million. Another office asset was purchased by an investor at 1155 Eugenia Pl in Carpinteria, trading for $6.4 million.

In all, office property represented half of the sales transactions and more than half of the dollar volume during Q1. Land was an unusually popular commodity, producing six sales valued at $17 million, including owner-user purchases by the Museum of Contemporary Art at 35 Anacapa St in the Funk Zone and America's Tire at 151 S Fairview Dr in Goleta.

Surprisingly, Q1 was a quarter with no sales of industrial property on the South Coast, which hasn't happened since the depths of the last recession. This is more due to limited supply than a shortage of demand.

For the well-funded buyer, there are four $25+ million office/R&D properties to choose from on the South Coast, as the 162,000 sf LogMeIn campus at 7414-7418 Hollister Ave in Goleta comes to market, joining 7402-7412 Hollister Ave, 71 S Los Carneros Rd, and 6303-6309 Carpinteria Ave. (All four are listed or co-listed by Hayes Commercial.)

Looking ahead, there are currently 45 properties for sale on the South Coast, a 38% decrease since two years ago and the lowest count in at least ten years. At some point, one would expect limited inventory and increasing interest rates to decrease the sales momentum, but so far the effects have been negligible. Off-market transactions represented more than half of the Q1 sales, indicating that demand remains strong and buyers are ranging beyond the openly marketed supply.

OFFICE LEASING

	Santa Barbara	Goleta	Carpinteria	Total
Vacancy:	**4.8%**	**11.8%**	**3.0%**	**7.8%**
Available Space:	**+ 9%**	**- 1%**	**+30%**	**+ 2%**
Asking Rates:	**+ 4%**	**+ 5%**	**- 6%**	**+ 5%**
Achieved Rates:	**+ 3%**	**- 3%**	**n/a**	**n/a**
Gross Absorption:	**- 19%**	**- 2%**	**- 100%**	**- 32%**

Change percentages are since 1/1/2017. Change percentage totals are weighted by sq ft.

Office leasing decelerated noticeably in Q1, with transactions decreasing 25% and gross absorption down 32% compared to 2016 on an annualized basis. This appears to be a normal market fluctuation following several consecutive quarters of high volume, rather than the harbinger of a sustained slow-down. We anticipate an increase in leasing activity through the balance of 2017.

SANTA BARBARA

- Santa Barbara's office availability has expanded by 30% since a cyclical low point six months ago. However, the vacancy rate is still under 5%, a very lean inventory by national standards.

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- Landlords continue to ask and receive rents at or near historical highs. The average asking gross rate of $3.07 per sf is as high as we have ever seen.

- The largest available space is two buildings totaling 18,792 sf at 530 Chapala St & 25 W Cota St offered for sublease. The property, currently being rebuilt, is also for sale.

- There is currently a total of 18,284 sf of office space available in Montecito, a 125% increase compared to a year ago.

- Four of the quarter's largest leases were renewals, including 7,457 sf at 200 E Carrillo St by Damitz, Brooks, Nightingale et. al. and 6,282 sf at 1 N Calle Cesar Chavez by Entheos Associates.

GOLETA

- Goleta's office vacancy decreased, but only slightly, in the first quarter. However, two leases in the early days of Q2 have knocked vacancy down to 9.3%, it's lowest level since 2008. More on that in our midyear report.

- Q1 was a relatively subdued leasing quarter; there were 8 transactions, and the average term was just 38 months.

- Despite relatively high vacancy, asking lease rates are at a record level and 12% higher than the prior 5-year average.

- Gross absorption during the last two quarters combined was 90,000 sf, the slowest six-month period in four years.

- There were three long-term leases in Q1: Consolidated Electrical Distributors took 4,826 sf at 6464 Hollister Ave, JAV leased 4,377 sf at 75 Aero Camino, and CBRE/Whitestone leased 2,324 sf at 6750 Navigator Way.

CARPINTERIA

- There has been very little availability in Carpinteria for the past 18 months. There are 6 spaces on the market, and the vacancy rate is currently 3.0%.

- Largely due to the scarce inventory, there were no office leases in Carpinteria or Summerland during Q1.

RETAIL LEASING

	Santa Barbara	Goleta	Carpinteria	Total
Vacancy:	3.8%	2.2%	4.4%	3.4%
Available Space:	+107%	- 2%	+204%	+ 75%
Asking Rates:	+ 5%	+ 7%	- 32%	+ 8%
Achieved Rates:	- 21%	- 18%	- 6%	- 22%
Gross Absorption:	- 58%	- 30%	+ 17%	- 50%

Change percentages are since 1/1/2017. Change percentage totals are weighted by sq ft.

Vacancy in downtown Santa Barbara ballooned in Q1, while the rest of the South Coast held steady.

- Macy's departure from Paseo Nuevo mall added 140,000 sf to the market. An additional 47,000 sf is now marketed for lease at 1001 State St, the Saks Off 5th building. These two spaces alone nearly doubled the available square footage in Santa Barbara.

- In addition to these large availabilities involving big-name retailers, vacancy along Santa Barbara's retail core has expanded. Not including Paseo Nuevo, there are 17 spaces available on the 600-1000 blocks of State, the highest count we have on record. Bankruptcies will also bring the Payless Shoes and RadioShack stores on the 600 block to market in the near future.

- Sluggish leasing activity is exacerbating the vacancy trend. Santa Barbara's Q1 gross absorption was down 92% compared to the average of the previous five Q1s. The lease by Perfume Plus Outlets of 2,450 sf at 911.5 State St was the only transaction on the 600-1000 blocks.

- The surplus of space isn't limited to the State Street core. There are 8 spaces available in the Funk Zone/waterfront area, including 8,534 sf next to REI and 8,000 sf in the new Hotel Californian complex.

- The team behind the Waterline in the Funk Zone is gearing up a similar concept at 418 State St, formerly the India House restaurant.

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- Retail leasing in Goleta has been limited so far this year, and vacancy remains low at 2.2%.

INDUSTRIAL LEASING

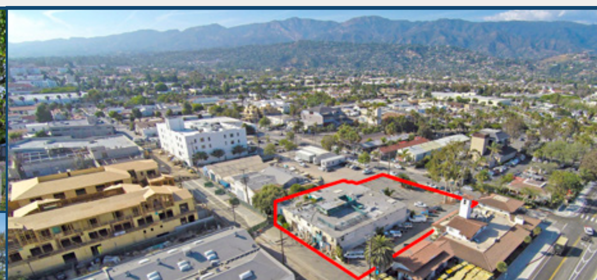
	Santa Barbara	Goleta	Carpinteria	Total
Vacancy:	0.5%	1.6%	0%	0.9%
Available Space:	+ 21%	- 21%	-100%	- 37%
Asking Rates:	- 9%	+ 5%	n/a	+ 2%
Achieved Rates:	+ 25%	+ 23%	- 9%	+ 18%
Gross Absorption:	- 24%	- 55%	- 42%	- 44%

Change percentages are since 1/1/2017. Change percentage totals are weighted by sq ft.

Following a year of record industrial leasing activity, gross absorption was much more subdued in Q1, decreasing 44% on an annualized basis. Vacancy is at a historic low point.

- There are only 12 spaces currently on the market for lease, and in fact there are no industrial spaces available in Carpinteria.
- Of the 12 South Coast leases in Q1, five were renewals, including the options exercised by 32 Bar Blues on 9,626 sf at 1015 Cindy Ln and Rincon Catering on 6,084 sf at 517 Maple St, both in Carpinteria. The Regents of UCSB renewed 11,200 sf at 5531 Ekwill St in Goleta.
- Santa Barbara's largest lease of the quarter was 9,292 sf at 35 N Calle Cesar Chavez signed by BMC West.
- The largest available space on the South Coast is 20,794 sf for sublease at 5756 Thornwood Dr in Goleta, a former FLIR building.
- Looking ahead, the South Coast's 0.9% vacancy rate is the lowest we have on record. For the past several years, persistent demand has generated high leasing volume despite limited inventory. It's too soon to know if the Q1 slowdown is a temporary dip or the beginning of a sustained shift. We are in uncharted territory with this wafer-thin vacancy rate. What hasn't changed is demand, which is still plentiful, and we expect activity to rebound at least partially in the coming quarters.

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