

COMMERCIAL SALES

	Q1'19	vs 2018*	vs 5-yr Avg
Sales Transactions	16	- 18%	- 27%
Volume (excl. hotels)	\$107 M	+ 41%	+ 14%

* Annualized

The first quarter proved to be short on transactions but long on dollar volume. A handful of high-value transactions contributed to \$107 million in sales, the third highest quarterly total in the last three years. This fits the recent trend. The number of sales has decreased in recent quarters, but dollar volume has held steady. If you look at the last four quarters (Q2 of 2018 through Q1 of 2019), the total dollar volume of \$354 million would make for an exceptional sales year.

The remarkable surge of owner-user buyers in 2018 has continued full bore in 2019, as 11 of 16 South Coast sales were purchased by owner-users, including many of the quarter's largest transactions. CenCal Health purchased one of Santa Barbara's biggest office buildings—60,225 SF at 4050 Calle Real—for its own use in an off-market sale. In Carpinteria, S&S Seeds purchased the 44,250 SF bluff-top building at 6155 Carpinteria Ave. Both buyers were long-time tenants in the buildings they purchased. In Goleta, an owner-user purchased 454 S Patterson Ave, a 26,201 SF office building with excess land for additional development.

By contrast, investors played only a minor role in Q1, procuring just five properties, a strikingly low number by historical standards. The most notable of these was the 83,479 SF Northrop Grumman/Orbital ATK facility at 600 Pine Ave in Goleta, purchased by a local investor group. Coincidentally, another Northrop Grumman property, the 24,030 SF industrial/flex building at 6384 Via Real in Carpinteria, was purchased by an investor. Northrop Grumman has vacated the building, and a local technology company is rumored to be in negotiation to lease it.

Inventory of properties for sale has decreased 14% since the peak six months ago; however, it remains very high by historical standards with 64 properties for sale. There are 22 retail properties for sale, including 10 along State Street's downtown corridor. Although inventory is high, most of the Q1 sales were off-market transactions, largely because more than half of the owner-user sales were tenants buying the property they occupy in off-market deals.

Looking ahead, while investors are currently playing a diminished role, owner-user demand is filling the gap and essentially extending the life of the extraordinary market cycle that began in mid-2012. The current rally by owner-users is unprecedented, and therefore its duration is difficult to predict. That local businesses and non-profits are feeling the confidence to buy their own real estate is a positive sign for our economy. Meanwhile, evidence is mounting that investors have shifted down a gear from the levels that drove the market to new heights in recent years. Our perception is that investors are becoming increasingly risk averse as the current economic expansion approaches 10 years. However, underlying fundamentals for investors remain favorable with relatively low interest rates and the economy holding steady.

OFFICE LEASING

	Santa Barbara	Goleta	Carpinteria	All
Vacancy	6.5%	6.8%	1.5%	6.3%
Available Sq Ft	+11%	-20%	-16%	-7%
Transactions	-1%	+36%	-60%	+7%
Achieved Rents	+6%	+0%	-27%	-2%
Gross Absorption	-9%	+60%	-76%	+36%

Change percentages are compared to 2018, annualized where appropriate.

The divergence in office vacancy between Goleta and Santa Barbara became even more pronounced in Q1 (see graph on next page). Goleta finished the quarter with its lowest vacancy rate in more than 10 years, while Santa Barbara's climbed to a level not seen since late 2009.

Carpinteria's office market continues to be marked by very low vacancy and limited deal volume.

GOLETA

- Q1 was Goleta's busiest leasing quarter in five years. There were 16 transactions, seven of which were larger than 10,000 sf . There are still many tenants with active requirements, spaces are receiving multiple offers, and deal flow is projected to remain high in coming quarters.
- Available space has decreased by 43% over the past two years. The current vacancy rate of 6.8% is the lowest seen in Goleta since Q1 of 2008. While demand is strong, it is also selective: more than half of the current availabilities have been on the market for at least 12 months.
- Apeel Sciences signed a long-term lease on the 112,480 sf building at 71 S Los Carneros Rd, bringing lasting resolution to the vacancy created when Allergan

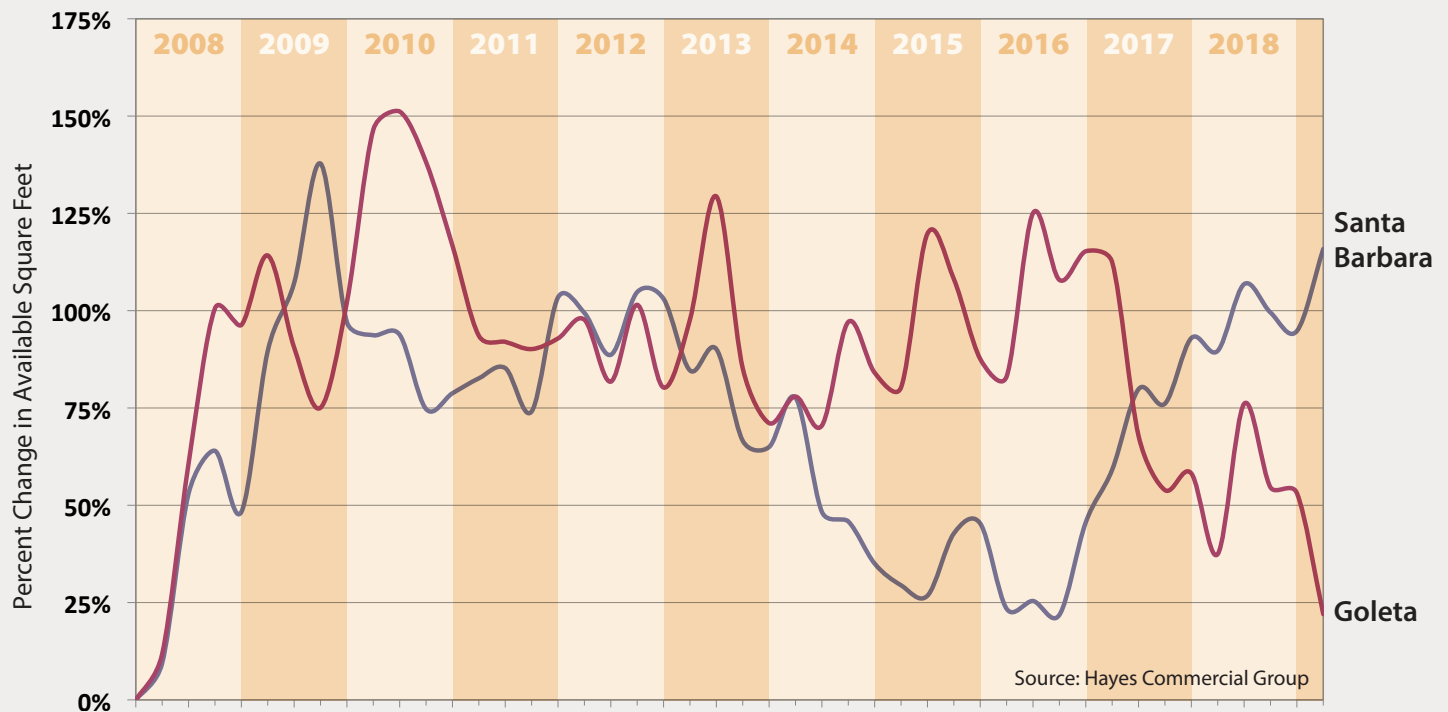
left Goleta in 2014. The gross consideration on the Apeel lease was nearly \$20 million.

- The largest current offering is the 82,132 sf Medtronic building at 125 Cremona Dr, which came to market in Q1 for the first time in 30 years. Medtronic will vacate the building later in 2019.

SANTA BARBARA

- Santa Barbara's office vacancy rate of 6.5% is the highest since 2009 and represents a 36% expansion in available space over the past 24 months. There are an unprecedented 88 spaces available of 1,000 sf or larger.
- Three downtown spaces larger than 10,000 sf came to market in Q1: RightScale's 26,366 sf space at 402 E Gutierrez St is available for sublease, while the 13,610 sf Grayson Building at 29 W Anapamu St and 10,194 sf at 936 State St were also listed for lease.

OFFICE VACANCY TRENDS Change in Available Space since 2007



Office vacancy in Santa Barbara and Goleta followed a similar trend from the end of 2007 to mid-2014. Since then the cities' trajectories have diverged. Goleta has been on a path of contraction for nearly three years, while Santa Barbara's vacancy has been on the rise.

- Honey Science subleased the newly constructed buildings totaling 18,792 SF at 530 Chapala St and 25 W Cota St. The move represents a major expansion for the software company, which currently occupies 6,000 SF at 333 E Haley St.
- There are nine availabilities totaling 21,000 SF in Montecito, which is a relatively large inventory historically. The largest space—5,186 SF for sublease from Union Bank at 1486 East Valley Rd (the Old Firehouse building)—came to market in Q1. The building is also for sale.

CARPINTERIA

- Available space has decreased by 76% over the past 12 months, and the current vacancy rate of 1.5% is one of the lowest rates ever seen in Carpinteria.
- There are just four spaces available, the largest being 5,557 SF at 1180 Eugenia Pl.
- Griplock Systems signed the only lease of Q1, securing 3,425 SF at 1029 Cindy Ln for its relocation from 1132 Mark Ave.

RETAIL LEASING

	State Street	Santa Barbara	Goleta	South Coast
Vacancy	12.9%*	3.7%	1.8%	3.3%
Available Sq Ft	+ 6%	+ 10%	- 15%	+ 3%
Transactions	+ 14%	+ 30%	+ 50%	+ 2%
Achieved Rents	- 18%	+ 5%	+ 16%	+ 21%
Gross Absorption	+ 2%	+106%	-47%	+ 5%

* State Street vacancy is based on number of storefronts, rather than square footage.
Change percentages are compared to 2018, annualized where appropriate.

State Street continues to struggle as new vacancies emerge. In Q1, the 18,357 SF corner building at 901 State St long occupied by Forever 21 came to the market, bringing the available storefront count on the 900 block to seven. There are 32 vacancies along the main retail corridor of State Street from Gutierrez to Sola Streets (400 to 1300 blocks), which represents a 12.9% storefront vacancy rate. Though still very high, this represents a net improvement from 37 vacancies six months ago. When pop-ups and other storefronts that still have an operating tenant are

subtracted, the “perceived” storefront vacancy rate drops to 9.2%.

While the vacancy picture remains pretty bleak, deal volume continues to be encouraging. There have been 25 retail transactions along the downtown State Street corridor in the past 12 months. Among the notable Q1 leases, House of Clues will bring an escape room to the Aaron Bros space at 601 State St, and the former Palazzio restaurant space at 1026 State St will become Obbi’s Bistro.

Elsewhere in Santa Barbara, Sprouts leased the adjoining former Trader Joe’s and PetSmart locations at 19-29 S Milpas St. The Beachcomber of Crystal Grove reached a deal with the City on the former East Beach Grill space at 1118 E Cabrillo Blvd. Moving west to the Turnpike neighborhood, Fitness 19 leased the 19,739 SF space at 187 S Turnpike Rd, formerly a trampoline club. Across the 101 from there, Starbucks signed a long-term lease in the freeway-serving building to be constructed at Turnpike and Calle Real.

Goleta retail vacancy rate has contracted to 1.8%. Two quarters ago, we noted that 90% of Goleta’s vacancy was weighted toward the eastern half of the city, east of the airport. Since then, the balance between the two sides of town has evened out, though average asking rent for retail space in the western area is still 28% higher. There were no Q1 retail leases of note in Goleta proper.

INDUSTRIAL LEASING

	Santa Barbara	Goleta	Carpinteria	All
Vacancy	1.5%	5.3%	1.5%	3.1%
Available Sq Ft	+ 40%	- 8%	- 55%	- 6%
Transactions	- 81%	+144%	+ 45%	+ 28%
Achieved Rents	+ 10%	- 3%	- 5%	- 7%
Gross Absorption	- 83%	+ 25%	+ 6%	- 1%

Change percentages are compared to 2018, annualized where appropriate.

South Coast industrial vacancy rate has been above 3% for two consecutive quarters, a level not seen since 2012. Inventory remains tight in Santa Barbara and Carpinteria, while Goleta is in a phase of relatively high vacancy.

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In Goleta, the current inventory tilts toward larger spaces, nine of which are over 10,000 sf. Sizeable spaces recently brought to market include 149 Castilian Dr (17,419 sf), 165 Castilian Dr (12,620 sf), and 495 Pine Ave (13,761 sf). Goleta produced 11 industrial leases in Q1, which is a high quarterly count. However, five of the transactions were short-term leases on small spaces at 289 Coromar Dr in Cabrillo Business Park. There were some big deals, too. HERBL, a cannabis distribution company, leased two buildings at 749 and 759 Ward Dr, which comprise 25,000+ sf of office/R&D and warehouse space. Smart Office Interiors leased 12,894 sf at 601 Pine Ave, formerly Santa Barbara Mailworks. FACL leased 10,080 sf relinquished by FLIR at 5760 Thornwood Dr.

Santa Barbara currently offers 10 available industrial spaces comprising a 1.5% vacancy rate. The 14,368 sf building at 415 N Salsipuedes St is being relinquished by Capitol Hardware and is newly on the market. The largest availability remains 25,570 sf for sublease at 30 S Calle Cesar Chavez, marketed as office/R&D/flex space. The lone transaction in Q1 was 3,078 sf at 308 Palm Ave leased by Branch Out Tree Care.

There was only one available space in Carpinteria at the end of Q1, which has since leased. Of the four transactions completed in Q1, the largest was the sublease by Wonderful Things Inc of 13,506 sf at 525 Maple Ave, which had been occupied by DSY Education Corp.








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