

MARKET CHANGE

Compared to 2018

Sales Transactions	▼ DOWN	Sales \$ Volume	▲ UP
Lease Transactions	▲ UP	Lease \$ Volume	▲ UP
Lease Rates	▲ UP	Vacancy	▼ DOWN

Change values are for all commercial property types since 1/1/2019.

COMMERCIAL SALES: Transactions are down, dollar volume holds steady

Dollar volume of commercial sales (excluding hotels) at midyear was on par with the prior 5-year average. On the other hand, the number of sales transactions was well below the recent historical norm. The 29 sales to date is the lowest midyear count since 2012, and is even fewer than the first half of last year in the wake of two natural disasters.*

The office sector generated 78% of the total commercial volume, driven by a handful of high-value transactions in Goleta and Santa Barbara, and is on track to set a new annual high mark for dollar volume. The largest sale to date was CenCal Health's purchase of the 60,225 sf building at 4050 Calle Real in Santa Barbara for its own use for around \$30 million. Yardi Systems purchased 420 S Fairview Ave in Goleta, a 71,621 sf class A office building, for more than \$20 million with plans to eventually occupy the building. In the second quarter, the 19,334 sf building at 800 Miramonte Dr on "TV Hill" in Santa Barbara was purchased by an investor. All three of these high-value sales were off-market transactions. To date, off-market transactions have represented 48% of sales transactions, which is consistent with the ratio in recent years.

Retail property sales have been unusually slow to date, with volume tracking 75% below the prior 5-year average. The sales have all been "class B" properties, purchased by owner-users and value-add investors. Retail inventory is near the historic high with 20 properties for sale, nine of which are on State Street in downtown Santa Barbara.

Owner-users represented 55% of buyers, continuing an unprecedented trend and further demonstrating that there are fewer investors active in the market than there were a few years ago. The Housing Authority of the City of Santa Barbara purchased the multi-building medical property at 200 N La Cumbre Rd for \$4.25 million with the long-term goal of redeveloping it for affordable housing.

Whether you call it SoCo (South of Cota), the Lagoon District, or the Laguna District, the neighborhood surrounding East Haley and Gutierrez Streets in downtown Santa Barbara continues to be the hot spot in Santa Barbara for commercial sales. There have been 27 sales valued at \$57 million over the past two years in the area from Cota Street to US 101 and from Milpas to Anacapa Street. Most of the buyers have been owner-users, as properties in this neighborhood tend to be in the size and price range that suits a typical business or other organization. Most recently, the 5,740 sf property at 622-628 Olive St was purchased by an owner-user.



The 60,225 sf building at 4050 Calle Real is one of Santa Barbara's largest office buildings, purchased by CenCal Health in February.

At midyear there were 68 properties for sale, which is elevated inventory for the South Coast. Both office and retail property offerings are abundant. The Fed has indicated its first interest rate cut in a decade will come at the end of July, which could give some mid-level investors a nudge back into the commercial market. Concern that a recession

* Sales of agricultural property are not included in our aggregate statistics for commercial sales. There were two agricultural sales in Carpinteria as of midyear.

may be around the corner is making some owners willing to sell, and if the return is sufficient and stable, there is investment capital in the market seeking hedge assets to bridge a potential downturn in other investment classes. In fact, several high-value, stabilized properties on the South Coast are currently in escrow with investor buyers, which could produce a boost in volume toward the end of the year.

OFFICE LEASING: Goleta vacancy lower than Santa Barbara for first time

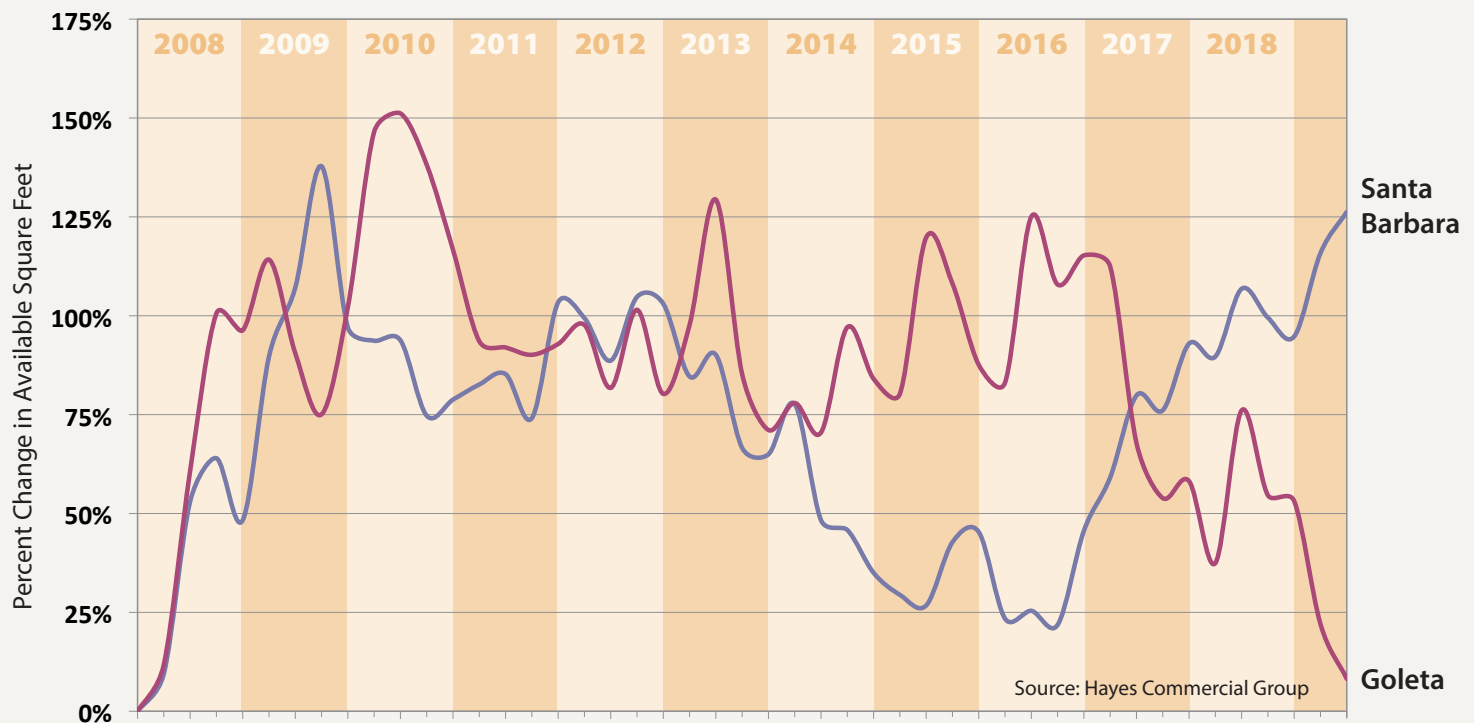
For the first time on record, Goleta's office vacancy rate is lower than Santa Barbara's. Over the past three years, available space in Goleta has contracted by 52%, whereas space in Santa Barbara has expanded by 80%. The chart below illustrates the divergence.

Goleta's 6.0% vacancy at midyear is the lowest rate since the end of 2007 and a remarkable recovery from 12.5% vacancy three years ago. Leasing has been heavy to date

with 28 transactions. Goleta's largest vacancy in recent years was absorbed in the first quarter when Apeel Technology signed a long-term lease on the 105,257 sf building at 71 S Los Carneros Rd. The second quarter's largest deal was Inogen's lease of the to-be-built 50,000 sf building at 301 Coromar Dr, which will become its new headquarters. The developer, RAF Pacifica, is projecting Q3 of 2020 for completion. Cottage Hospital signed a long-term renewal at 6550 Hollister Ave, the 39,875 sf building it uses for administrative offices. Nearby, behind the hospital proper, the 21,504 sf rear building at 5385 Hollister Ave is fully leased thanks to second quarter leases signed by Bio SB and Sansum Clinic. And Vitamin Angels staked out new headquarters in 11,464 sf at 6500 Hollister Ave, backfilling space relinquished by Curvature.

Santa Barbara's office vacancy rate of 6.8% is the highest on record. There are 55 spaces totaling more than 235,000 sf available within five blocks of State Street in downtown Santa Barbara. Five of those spaces are larger than 10,000 sf,

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 three years, while Santa Barbara's vacancy has been on the rise. At midyear, Santa Barbara's vacancy rate was 6.8%, higher than Goleta's rate for the first time.

including the 26,336 sf sublease offering at 402 E Gutierrez St; 11,534 sf in the La Torre building at 104 W Anapamu St; and 10,381 sf in the US Bank building at 936 State St—all three of which have come to market in 2019.

Santa Barbara has seen a dip in leasing activity, with midyear transactions 13% below the prior 5-year average. In the second quarter, Umbra Lab subleased 8,000 sf at 27 E Cota St, Sonos renewed 6,619 sf at 600 Chapala St, and PayJunction subleased 5,708 sf at 12 E Carrillo St.



Inogen will move its headquarters in late 2020 to a newly-constructed 50,000 sf building at 301 Coromar Dr in Goleta. (Artist's rendering)

What's behind the divergence in vacancy between Goleta and Santa Barbara? Anecdotal evidence suggests that among some office tenants, Goleta's appeal is growing in comparison to downtown Santa Barbara. In its decision to move its headquarters to 6500 Hollister Ave, Vitamin Angels cited both the pros of Goleta and the cons of downtown. State Street's current struggles are affecting everyone who works downtown to some degree. Meanwhile, in Goleta, amenities and housing opportunities for office workers have been growing. Another factor is rent, which in Santa Barbara averages about 40% higher per square foot than in Goleta. Clearly, strong demand among tech companies to be on or near State Street remains—as evidenced by recent leases by Amazon, Invoca, and Honey Science—but many tenants are seeing both Santa Barbara and Goleta differently than they did, say, five years ago.

Looking ahead, Goleta should see the continuing trend of robust leasing velocity and relatively low vacancy. Carpinteria remains in a phase of very low vacancy and

minimal leasing activity, conditions which are expected to persist in the near future. Santa Barbara is more of an enigma. Given the current economic cycle—notably 10 consecutive years of economic recovery and growth—Santa Barbara's record vacancy rate is cause for concern. There are tenants looking for space in Santa Barbara, which may alleviate vacancy somewhat in the near term. However, it will likely take tangible action by the City and community to address State Street's problems before Santa Barbara's traditional low vacancy is restored.

RETAIL LEASING: Much ado about State Street

There were 42 retail lease transactions in Santa Barbara in the first half of the year, the highest midyear count on record, and gross absorption was 50% above the prior 5-year average. Available space has decreased 10% since the peak two years ago, but remains elevated by historical standards, due primarily to the still-vacant former Macy's building downtown and the abundance of available space at La Cumbre Plaza.

As anyone can see, high vacancy persists downtown. At midyear, there were 31 available spaces along the 400 to 1300 blocks of State Street, representing a storefront vacancy rate of 12.4%, a slight decrease from 12.9% at the beginning of the year. After subtracting spaces occupied by pop-ups and existing tenants, the perceived storefront vacancy rate is 8.8%. The 900 block has seven available spaces, including the 18,357 sf corner space occupied by Forever 21.

Deal volume has held steady along the downtown retail corridor with 11 lease transactions to date totaling 35,000 square feet. Among the second quarter deals, Restoration Hardware renewed at 710 State St, providing a counterexample to the narrative that national retailers are abandoning State Street. Wendy Foster leased the former Celedon space at 1220 State St and will move there from 833 State St. Dining options continue to evolve as a local taqueria concept leased the Jersey Mike's space at 1213 State St; Apna Indian Cuisine took over the Goa Taco space at 718 State St; and a new restaurant named Embermill will open soon in the former Aldo's space at 1031 State St.

The brewery wave continues its rise up State Street. M. Special leased the 4,000 sf former Tonic space at 634 State St in Q2. Modern Times brewery opened at 418

State St, along with co-tenants Shaker Mill and Cubaneo, as did the Cruisery at 501 State St. In the Funk Zone, Rincon Brewery just leased 205 Santa Barbara St, and even renowned meat purveyor Shalhoob's is hopping into the action with its own line of beer. Time will tell what the carrying capacity of taprooms is in the downtown area (we count 17 operating or coming soon), but it's likely that we are witnessing peak beer.

A report on revitalizing downtown, which was commissioned by the City in January and prepared by the L.A.-based consulting firm Kosmont & Associates, was presented in July and reinforced most of the observations, concerns, and suggestions that have been aired at numerous community forums during the past three years. The analysis suggests that given current demographics and spending patterns, downtown has about 400,000 to 500,000 square feet of unsustainable retail space. For scale, that represents approximately four blocks of State Street along the downtown retail core. The report emphasizes the need for retailers and the City to reshape the downtown as a destination for experiences and community events, rather than just shopping and dining, to attract locals. It also urges the City to create an economic development department, be more business-friendly in its permitting process, and actively promote development of residential units downtown. If the City and other stakeholders act decisively on the report's recommendations, it could initiate a much-needed momentum shift for State Street.

INDUSTRIAL LEASING: Goleta leasing maintains momentum, especially along Ward Drive

Industrial leasing on the South Coast has been very active, with both transactions and gross absorption at midyear trending approximately 25% above the prior 5-year averages. Available space has contracted by 28% since the beginning of the year and restored a more historically typical combined vacancy rate of 2.4%.

In Goleta, recent and ongoing upgrades to industrial buildings along the Ward Drive corridor have been bearing fruit for new ownership. Cannabis distribution company HERBL, Inc has signed three leases to date in 2019 totaling 51,176 sf at 749 & 759 Ward Dr and 839 Ward Dr. AGQ Green Nature leased 5,997 sf at 859 Ward Dr, while Sonatech signed an expansion on 18,784 sf at 879 Ward Dr. Achieved gross rents for these 2019 leases

averaged 55% higher than rents paid at the same properties from 2015-2017, prior to upgrades by new owners. Other notable second quarter deals included a 20,337 sf expansion by Freedom Photonics at 41 Aero Camino, and a 15,036 sf lease by Raytheon 115 Robin Hill Rd.



HERBL, Inc leased 839 Ward Dr, a 25,807 sf industrial building, bringing its total footprint in Goleta to 51,176 sf.

Santa Barbara has seen very sparse industrial leasing to date—just five transactions totaling 17,500 sf—which is the lowest midyear activity in at least 10 years. The leases were all signed by traditional industrial tenants, including trades and warehouse uses, rather than creative office or fitness conversions. The vacancy rate has been at or above 1% for the past 12 months, relatively high by Santa Barbara standards, and finished midyear at 1.1%. One new availability of note is the 14,368 sf building at 415 N Salsipuedes St, formerly leased by Capital Hardware.

Given practically no marketed inventory, there have been a surprising number of leases in Carpinteria so far in 2019: seven transactions totaling 59,879 sf. Studiomarks leased 20,000 sf in the Tyco building at 570 Linden Ave in April. Soon after, Gigavac leased 11,259 sf at 1132 Mark Ave, a space vacated by Griplock Systems in its move to 1029 Cindy Ln. At the moment, there aren't any spaces being marketed for lease.

Moving forward, based both on inventory and tenant requirements we are aware of in the market, leasing activity in the second half of the year is expected to remain limited in Santa Barbara and throttle down in Goleta and Carpinteria.

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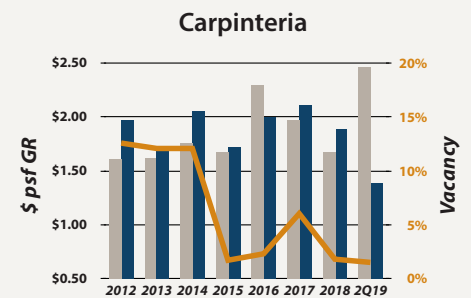
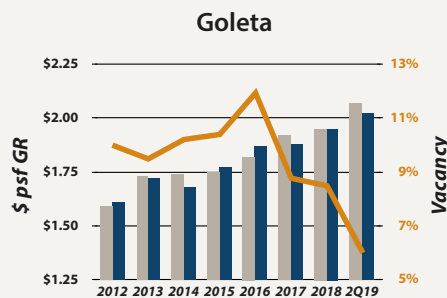
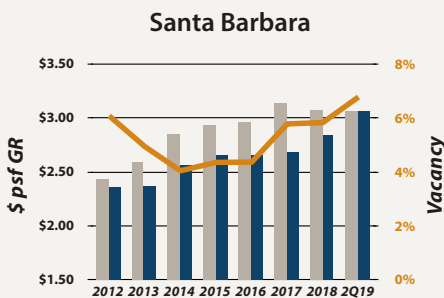
OFFICE LEASING

Market	Available	Change*	Gross Absorption	Change*	Asking Rate	Change*	Achieved Rate	Change*
Santa Barbara	342,206	16.2%	188,926	93.7%	\$3.06	-0.4%	\$3.06	7.5%
Goleta	272,577	-29.3%	393,736	155.4%	\$2.07	6.4%	\$2.02	3.4%
Carpinteria	9,774	-16.1%	3,425	-76.1%	\$2.46	47.2%	\$1.38	-27.0%
Totals	624,557	-9.7%	586,087	10.1%	\$2.62	8.2%	\$2.35	3.1%

* Since 1/1/2019. Average rate totals are weighted by square footage.

Office Vacancy vs. Achieved & Asking Rates

— Vacancy Rate ■ Asking Rate ■ Achieved Rate



2019 YTD Office Leases of Note



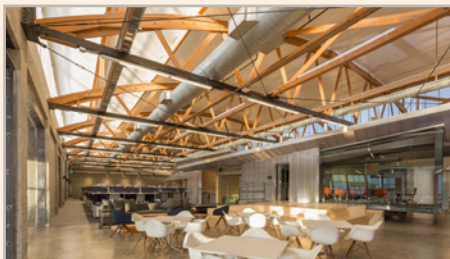
71 S Los Carneros Rd, Goleta
105,257 sf – Apeel Technology



301 Coromar Dr, Goleta
49,821 sf – Inogen



6550 Hollister Ave, Goleta
39,875 – Cottage Health



600-614 Chapala St, Santa Barbara
33,836 sf – Sonos



530 Chapala St, Santa Barbara
18,792 sf – Honey Science



5385 Hollister Ave, Goleta
13,533 sf – Bio SB

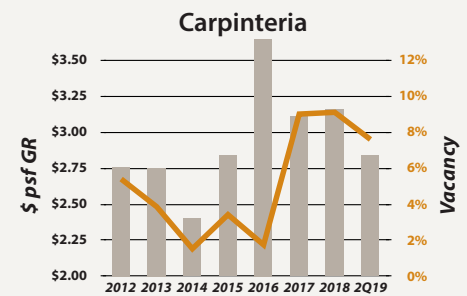
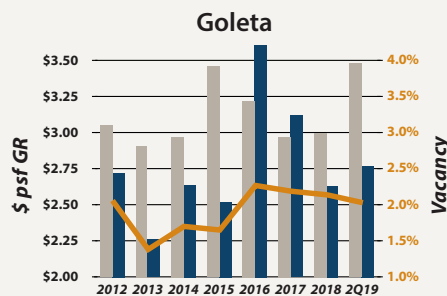
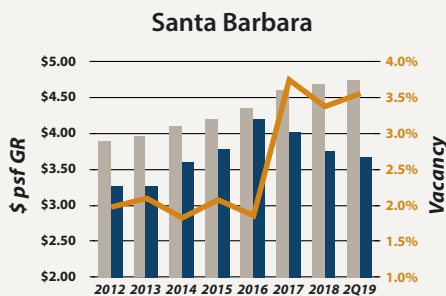
RETAIL LEASING

Market	Available	Change*	Gross Absorption	Change*	Asking Rate	Change*	Achieved Rate	Change*
Santa Barbara	374,890	5.5%	125,227	136.3%	\$4.75	1.3%	\$3.67	-2.3%
Goleta	81,751	-5.0%	43,752	-58.5%	\$3.48	16.3%	\$2.77	5.2%
Carpinteria	27,918	-16.5%	1,500	-1.9%	\$2.84	-10.2%	\$3.10	44.2%
Totals	484,559	2.0%	170,479	6.6%	\$4.43	3.5%	\$3.44	14.5%

* Since 1/1/2019. Average rate totals are weighted by square footage.

Retail Vacancy vs. Achieved & Asking Rates

— Vacancy Rate ■ Asking Rate ■ Achieved Rate



2019 Retail Leases of Note



19-29 S Milpas St, Santa Barbara
22,258 sf – Sprouts Market



187 S Turnpike Rd, Goleta
19,739 sf – Fitness 19



175 N Fairview Ave, Goleta
14,063 sf – Dollar Tree



710 State St, Santa Barbara
8,800 sf – Restoration Hardware



634 State St, Santa Barbara
4,000 sf – M. Special



4791 Calle Real, Goleta
2,028 sf – Starbucks

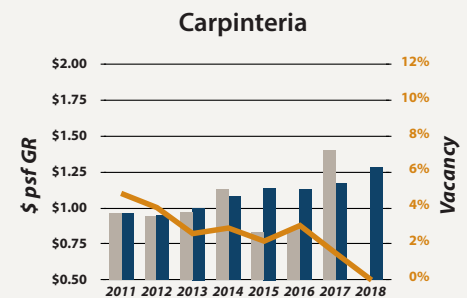
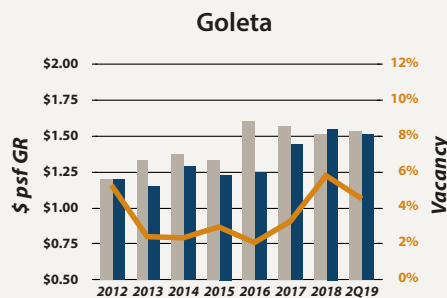
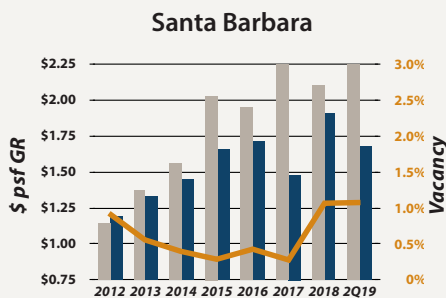
INDUSTRIAL LEASING

Market	Available	Change*	Gross Absorption	Change*	Asking Rate	Change*	Achieved Rate	Change*
Santa Barbara	51,973	1.2%	17,578	-52.2%	\$2.27	8.0%	\$1.68	-12.1%
Goleta	199,541	-21.9%	206,018	103.7%	\$1.53	1.5%	\$1.51	-2.3%
Carpinteria	0	-100.0%	59,819	35.7%	na	na	\$1.28	-10.3%
Totals	251,514	-28.3%	283,415	55.7%	\$1.69	4.2%	\$1.47	-7.4%

* Since 1/1/2019. Average rate totals are weighted by square footage.

Industrial Vacancy vs. Achieved & Asking Rates

— Vacancy Rate ■ Asking Rate ■ Achieved Rate



2019 Industrial Leases of Note



839 Ward Dr, Goleta
25,807 sf – HERBL



41 Aero Camino, Goleta
20,337 sf – Freedom Photonics



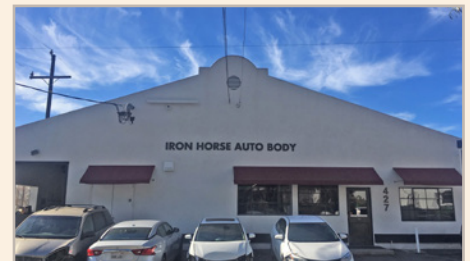
879 Ward Dr, Goleta
18,748 sf – Sonatech



570 Linden Ave, Carpinteria
20,000 sf – Studiomatics



1132 Mark Ave, Carpinteria
11,259 sf – Gigavac



427 Olive St, Santa Barbara
6,000 sf – OSI Hardware

COMMERCIAL SALES

2019 Commercial Sales of Note



4050 Calle Real, Santa Barbara
\$30,000,000±



420 S Fairview Ave, Goleta
\$20,000,000±



600 Pine Ave, Goleta
\$21,500,000



454 S Patterson Ave, Goleta
\$14,850,000

Highest Priced Properties For Sale

3761 State St, Santa Barbara
Whole Foods • 29,884 sf
Unpriced

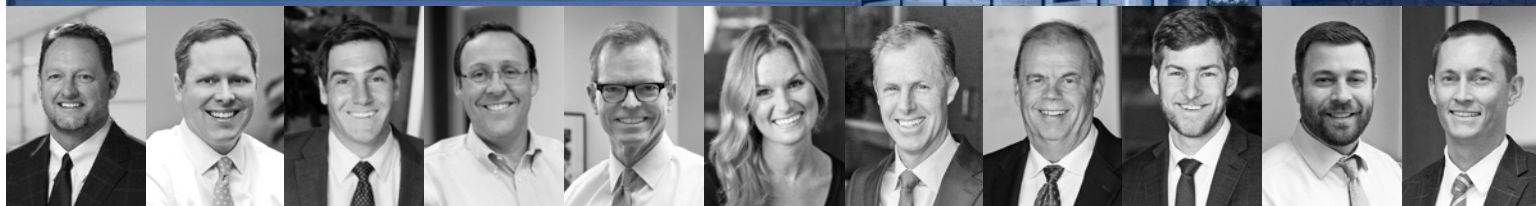
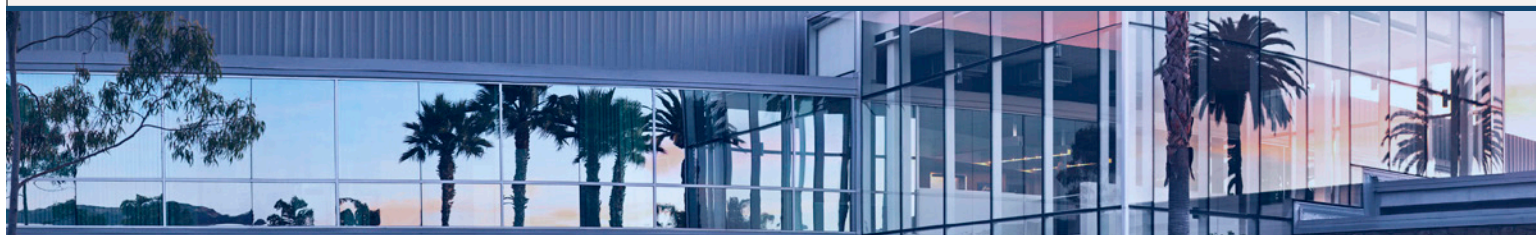
50-70 Castilian Dr, Goleta
Office • 129,523 sf
\$36,800,000

6300 Hollister Ave, Goleta
Office/R&D • 106,309 sf
\$35,500,000

827-831 State St, Santa Barbara
Retail/Office • 58,762 sf
\$29,000,000

3850 State St, Santa Barbara
Motel • 68 rooms
\$24,750,000

1486 East Valley Rd, Montecito
Office/Retail • 6,357 sf
\$16,000,000



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