



## The Lee Central Coast Brief

# Q3

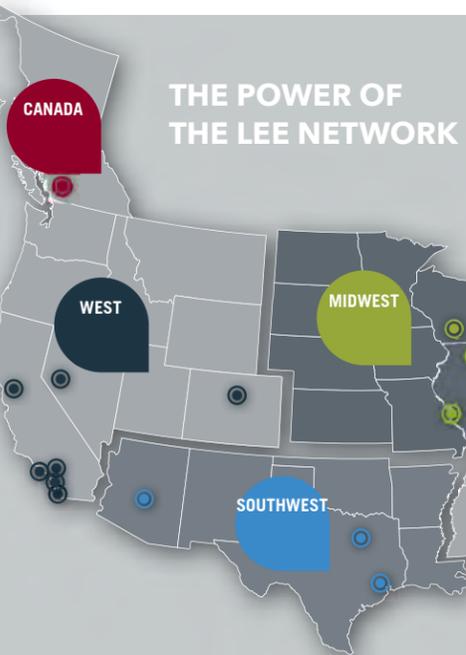
2017

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- 5 NATIONWIDE LEE OFFICES



LEE &  
ASSOCIATES

COMMERCIAL REAL ESTATE SERVICES



THE POWER OF THE LEE NETWORK

SERVING OUR CLIENTS THROUGHOUT THE U.S. AND CANADA

- ARIZONA
- BRITISH COLUMBIA
- CALIFORNIA
- COLORADO
- FLORIDA
- GEORGIA
- INDIANA
- IDAHO
- MARYLAND
- NEVADA
- NEW JERSEY
- NEW YORK
- OHIO
- PENNSYLVANIA
- SOUTH CAROLINA
- TEXAS
- WISCONSIN

GERALDEVE AFFILIATE INTERNATIONAL RELATIONSHIP

- ▶ AUSTRIA
- ▶ BELGIUM
- ▶ FRANCE
- ▶ IRELAND
- ▶ LUXEMBOURG
- ▶ NETHERLANDS
- ▶ POLAND
- ▶ SLOVAKIA
- ▶ SPAIN
- ▶ TURKEY

1 Lee Overview

## THE LEE ADVANTAGE

Lee & Associates is the largest broker-owned commercial real estate firm in North America. Every Lee & Associates office delivers world class service to an array of regional, national and international clients, from small businesses and local investors to major corporate users and institutional investors.

Our professionals combine the latest technology, resources and market intelligence with their experience, expertise and commitment to superior service to optimize your results.

INDUSTRY SPONSORSHIPS & ORGANIZATIONS



- 1 **MARKET LEADER**  
SPECIALIZING IN MARKET INTELLIGENCE
- 2 **RELEVANT WORK**  
SEASONED AGENTS WITH RELEVANT TRANSACTION EXPERIENCE
- 3 **WE SAVE YOU TIME**  
CREATIVE PROBLEM SOLVING SKILL SETS
- 4 **ABILITY TO UNDERSTAND**  
EFFECTIVE CLIENT COMMUNICATION
- 5 **INTEGRITY**  
SHAPES OUR CULTURE & DEFINES THE CHARACTER

**62%** increase in transaction volume over 5 years

**\$11.6 billion** transaction volume 2016

**890** agents and growing nationwide

1 Regional Overview



## LEE & ASSOCIATES CENTRAL COAST

**3** offices within the tri-counties

**11** agents and growing

**Ranked #1**

Lee-Associates Central Coast ranks #1 in the Region Pacific Business Times ~ 9/2017



CALIFORNIA Central Coast

- SANTA BARBARA
- SANTA MARIA
- LOMPOC
- SAN LUIS OBISPO
- PASO ROBLES

Market Snapshots

# GLOBAL ECONOMY

After a pretty rough year in 2016, global economic activity has definitely picked up in 2017. The panic over the **Brexit** is over and fears of an economic whiplash have faded. The **Bank of England**, the UK's counterpart to our Fed, even raised interest rates for the first time in recent memory, indicating that central bank's belief in near-term economic growth. So far, it looks like London won't lose its status as a financial hub in that part of the world. GDP growth around the world is improving with all continents around the globe reporting stronger growth this year. That's not to say that economic woes don't continue in many areas, but there is less bad economic news on the front pages of major newspapers these days, reducing concerns of another global economic setback anytime soon. All eyes are on the European Union this year.

After several pivotal elections that could have shifted power to more nationalistic parties, results were mixed, leaving things pretty much as status quo on the continent. Recently, the **European Central Bank** (ECB) announced its plans to scale back its Quantitative Easing (QE) policy by beginning to gradually reduce its bond buying from its current **65 Billion Euro** per month level. No word from Chairman Draghi on raising benchmark interest rates, which remain in negative territory, a policy that still spooks economists worldwide. The ECB's monetary policy helped the EU beat the US in terms of GDP growth in 2016, but Mr. Draghi has watched US economic growth improve this year despite a higher Fed Funds rate and a suspension of QE. This could explain the recent hawkish rhetoric coming out of Europe these days. China's economy and stock markets have also stabilized, which has relieved anxiety over a potential economic crisis in the world's second largest economy.

China's leader, **Xi Jinping**, has taken a more active role in controlling economic events, consolidating his power in the process. New restrictions on capital flowing out of **China** have made it clear that he is willing to assert himself and the communist party as it relates to economic policy. China has also taking a more aggressive stance in terms of air pollution by actively promoting the country's active leadership in electric vehicle production.

As we reported last quarter, trade throughout Asia has improved in 2017 despite the fact that the US pulled out of the **Trans Pacific Partnership** trade agreement after Donald Trump took the reins as President. Tensions between the **US and China** over what constitutes fair trade between the world's two largest economic engines are heating up, but that hasn't stopped other East Asian nations from boosting trade this year. Port activity is up with most regions signaling robust growth moving forward.

Tension in the Middle East, on the other hand, is on the rise, as long held differences between major oil powers have again been laid bare. Saudi Arabia blames Iran for troubles in Yemen and Qatar has been ostracized by several Middle Eastern countries for its alleged ties to terrorist activities. Problems persist in **Syria** and **Kurds** are still pushing for independence in Iraq. Through all that, the oil keeps flowing and **OPEC countries** have mainly complied with their recent agreement to curb oil production in an effort to bring supply and demand further into balance.

**EURO AREA REAL GDP<sup>2</sup>**  
(QUARTER-ON-QUARTER PERCENTAGE CHANGES)

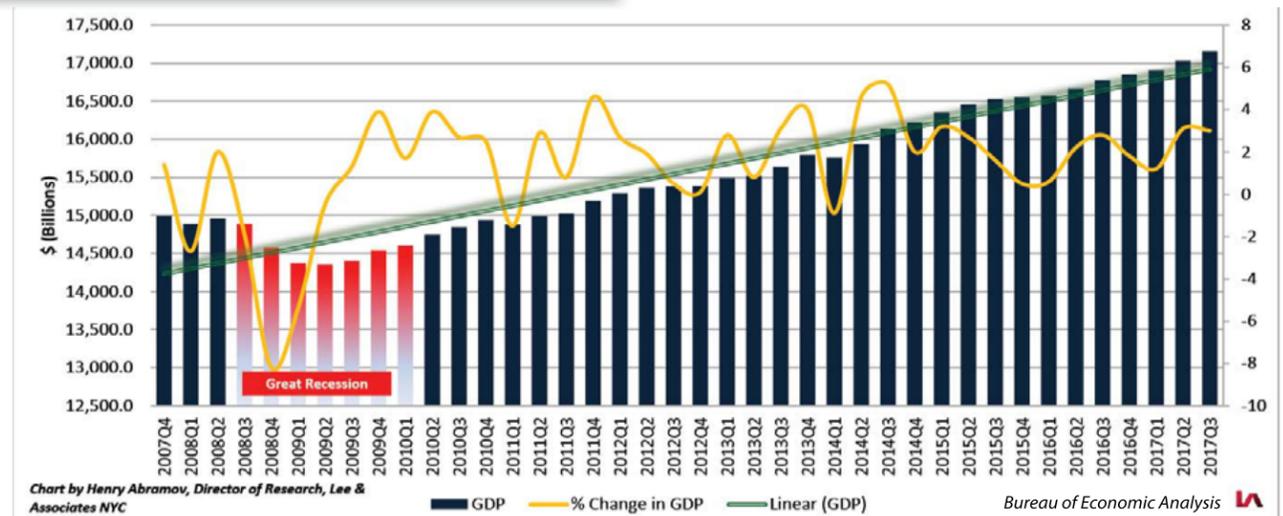


# GDP GROWTH

## TRENDING IN Q3:

- Q3 GDP comes in above expectations at 3.1%
- Impact of multiple hurricanes less than forecast
- Consumer spending softens but stays in positive territory
- Businesses bulk on inventories
- Softer US Dollar boosts imports

**QUARTER-TO-QUARTER GROWTH IN REAL GDP**



The first estimate of **GDP** growth for the third quarter came in above expectations at **3.0%**. For the first time since 2014, the US economy posted back-to-back growth number of **3%** or more. After disappointing performances in Q4 of 2016 and Q1 of 2017, the economy seems to have gained momentum, posting strong gains in consumer spending, business investment and exports, three of the four major components of the GDP formula. The fourth, government spending, fell by **.1%** in Q3, much to the delight of those looking to depend less on government as a key economic driver.

In **Q3**, consumer spending, which accounts for roughly 70% of GDP, grew at an annualized rate of **2.4%**, despite a spending decline in hurricane-ravaged areas of Texas and Florida. Those decreases are likely to reverse in Q4, as those hit by the storms spend on recovery efforts and return to normal spending patterns.

Net investment by the nation's businesses was a major contributor to the strong economic performance in the third period. Nonresidential fixed investment grew at an annualized rate of **3.9%**, which may be a precursor to an increase in productivity in the near term. That could bolster job growth and put upward pressure on tepid wage growth, a main concern of our central bankers.

# GDP GROWTH

Inventories also rose sharply in Q3, but that may just be a response to the fact that inventories were allowed to deplete earlier in the year.

The softer **US Dollar** helped boost US exports by **2.3%** in Q3, taking a chunk out of the trade deficit, a persistent drag on GDP. Credit is partly due to rising levels of oil and gas exports from Gulf Coast ports, which have risen sharply in recent quarters.

Inflation remains stubbornly below the Fed's target of **2%**, but both measures of inflation moved higher in Q3. Core inflation, which strips out food and energy, picked up to a **1.3%** annualized rate in **Q3**, while inflation in personal consumption expenditures, increased to **1.5%** on an annualized basis, up sharply from the previous quarter.

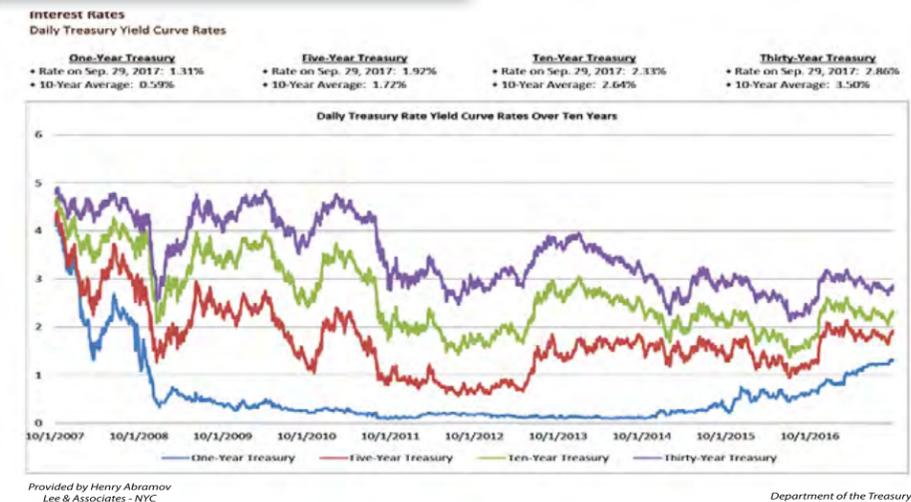


# MONETARY POLICY

## TRENDING IN Q3:

- Four vacancies on seven-member Board of Governors gives Trump a chance to shake things up
- Powell tapped to replace Janet Yellen as Fed Chairman
- FOMC passes on rate hike in September, but experts predict another bump in December
- The unwinding of the Fed's \$4.5 trillion balance sheet begins in Q4
- Yellen hedges on prediction on further rate hikes based on weak inflation data

## US TREASURY RATES



Concern over unprecedented vacancies on the **Fed's Board of Governors** is causing increasing investor uncertainty. Currently, four of the seven seats are empty. The latest resignation came from **Stanley Fischer**, who gave notice in September. Since all seven Governors also sit on the 12-member Federal Open Market Committee (**FOMC**), the group that weighs in on moving rates is making big decisions on monetary policy shorthanded. By law, the President nominates candidates for the Board, but thus far, none of President Trump's nominees has been confirmed by the Senate.

The President has made his decision not to re-appoint **Janet Yellen** to a second term as Fed Chairman, instead nominating current Board member Jerome Powell for the position. Four others were in contention, including economist John Taylor, who would have been the only controversial pick, due to his belief that changes in the FedFunds rate should be made by mathematical formula rather than by vote. In the end, Mr. Powell is a safer pick in terms of continuity in Fed policy, as he has a history of voting in lockstep with **Ms. Yellen**. Thus, the move for **Mr. Powell** for the chairmanship probably means it's more of the same in terms of monetary policy. However, his views on regulating banking activity as seen as more business friendly than those of Ms. Yellen. That bodes well for the big banks.

The current **Fed Funds** rate ranges from **1.00% to 1.25%**, but most of the experts think another **25** basis point rise is likely after the FOMC meets in December. Since it is expected already, investors are likely to build it into decision making beforehand.

# MONETARY POLICY

What is altogether unknown is the impact of a rate hike in conjunction with the unwinding the Fed's massive balance sheet that includes roughly **\$4.5 trillion** in **US Treasuries and Residential Mortgage-Backed Securities (RMBS)** it bought with electronically printed dollars, a process known as Quantitative Easing (QE). Recently, Ms. Yellen announced that beginning in **October, \$6 billion** in Treasuries and **\$4 billion** in RMBS would come off the balance sheet each month, with those amounts to grow substantially over time. Since it's never been done, no one knows what the outcome will be, but if **QE** actually helped drive down rates and stimulate the economy, it's hard to argue that reversing the process won't have the opposite effect.

On top of all that, inflation remains stubbornly under the Fed's 2% target and Ms. Yellen is already on record as saying that current monetary policy could reverse course if inflation stays too low. Fortunately, inflation picked up in **Q3**, which will help keep Fed policy on its current trajectory for the time being. Those of us in the real estate business have to keep a close eye on the yield of the **10 Year T-Bill**, as that is the mostly widely used benchmark to determine commercial property mortgage rates. So far, that yield is holding in the **2.3% range**, which means mortgage rates remain near historic lows for the moment. However, there is a correlation between the Fed Funds Rate and the yield on the **10 Year T-bill**. So, if the Fed follows its present course over the next year, mortgage rates will move higher.



# EMPLOYMENT

## TRENDING IN Q3:

- Monthly job gains remain sporadic
- U3 Unemployment rate is down to 4.2%
- U6 Unemployment rate fell to 8.3% in September
- Job growth in manufacturing remains sluggish
- High percentage of new jobs are at the lower end of the wage scale
- Wage growth remains sluggish 9 years into economic recovery

Monthly **job creation** metrics remain sporadic, but over the past 12 months have averaged **185,000** per month, which economists believe should be enough to tighten up the labor market and send wages much higher. However, job growth, whether it's measured month by month or a rolling 12 month average, has definitely cooled off. In September, the **U3** unemployment rate fell to a post-recession low. U3 measures employed workers and those who are unemployed but have sought employment in the most recent five weeks. So, job growth in a given month can be slow, but the unemployment rate will go down if more people stop looking for work.

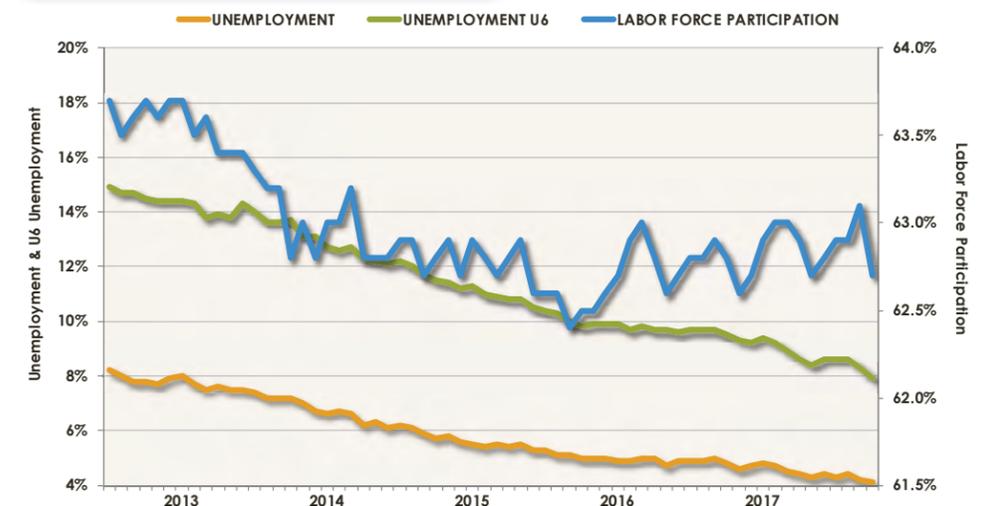
This happened in September when the U3 rate went down 20 basis points when there was a net loss of **33,000 jobs**. Conversely, a big month for job growth is often accompanied by a rise in the U3 rate as those not actively looking for work start looking again and are added back into the calculation.

For this reason, more experts are looking to the **U6** unemployment rate, which is a broader index that also includes part time workers, who prefer to work full time, as unemployed. That rate has been falling steadily, ending September at **8.3%**.

Unfortunately, too many of the jobs created and counted each month are either part time or at the lower end of the wage scale.

This explains the feeling of many workers who feel as though the recession never ended. In fact, of the top 30 fastest growing occupations as measured by the **Bureau of Labor Statistics**, 17 of them had a median annual wage of less than \$35,000 and just eight of them had an average annual wage of more than **\$50,000**.

NATIONAL UNEMPLOYMENT



# EMPLOYMENT

Only one exceeded **\$100,000**. Compounding this problem is the fact that many jobs that require specific skills and experience go unfilled due to a lack of qualified candidates, and these are often higher-paying, full time positions. Add the fact that high-skilled manufacturing jobs, positions that many are qualified for, have either been exported overseas or lost to advances in automation.

Job growth drives business growth and business growth drives net absorption of office, retail and industrial space. So, uneven job growth and weak wage growth may be at least partly to blame for across-the-board declines in Q3 net absorption.



# US INDUSTRIAL MARKET

## Net Absorption Slows - Vacancy Flattens

### TRENDING IN Q3:

- Big deals, both spec and build-to-suit, remain the primary activity driver across the country
- E-commerce still the market maker, as big online retailers, shippers, and 3PL operators stay in expansion mode
- Absorption and construction remains concentrated in the largest distribution hubs
- Large infill markets continue to struggle with low vacancy and functionally obsolete product that is slowing market velocity
- Vacancy rate remains flat, as net absorption and new deliveries remain in balance
- Interest rates for owner/user acquisitions remain near historic lows despite mid-year Fed rate hike
- Cap rates remain compressed at all-time low levels

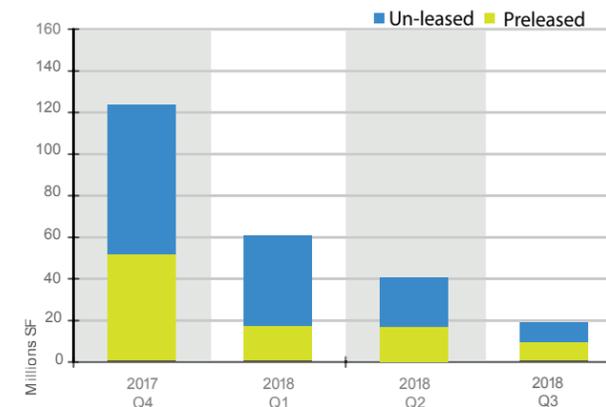
### MARKET METRICS:

Net absorption in Q3 fell sharply to just **55.8 millions** square feet, well below the 80.3-million-square foot gain in Q2. The current quarter was the lowest recorded in the past year. In the first three quarters of 2017, just over 206 million square feet of net absorption has been recorded, compared to 264 million square feet for the same period last year. As we have regularly been reporting, the e-commerce sector, big shippers, and 3PL operators are still the most active tenants, and that hasn't changed. The big push for "Last Mile" locations to speed up shipping times has become a key driver of net absorption. That has smaller, closer in locations, even those in secondary and tertiary markets, seeing strong leasing action from the big players.

**Amazon**, the biggest of big players, continues to drive its revenues back into an aggressive expansion strategy. But, **Walmart** is stepping up to take on the mighty Amazon. After acquiring **Jet.com**, the world's largest brick-and-mortar retailer has focused more on building its online presence, trimmed its store count and put Amazon on notice that it will be facing stiffer competition going forward. Walmart's recent earnings report indicates that the strategy is working. But, Amazon is also raising the competitive bar by deploying its own fleet of cargo aircraft that will operate from a new air hub in the Midwest, a bold move meant to drive down shipping time and cost.

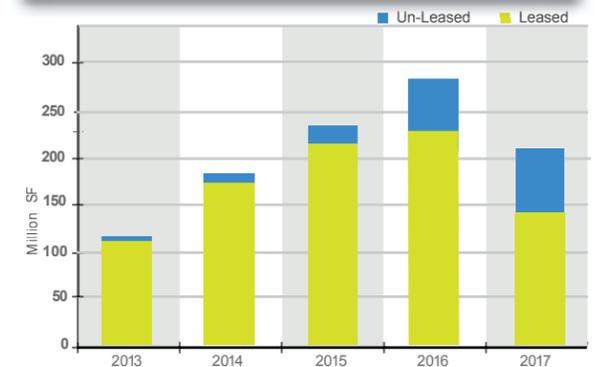
### FUTURE DELIVERIES

PRELEASED & UN-LEASED SF IN PROPERTIES SCHEDULED TO DELIVER



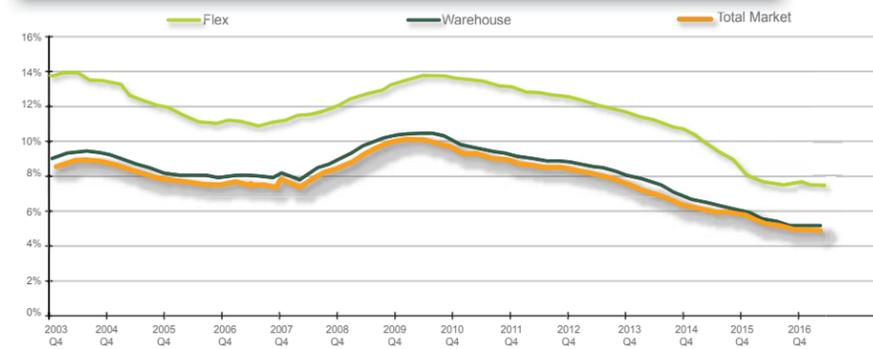
### RECENT DELIVERIES

LEASED & UN-LEASED SF IN DELIVERIES LAST 5 YEARS



# US INDUSTRIAL MARKET

VACANCY RATES BY BUILDING TYPE 2002 - 2016



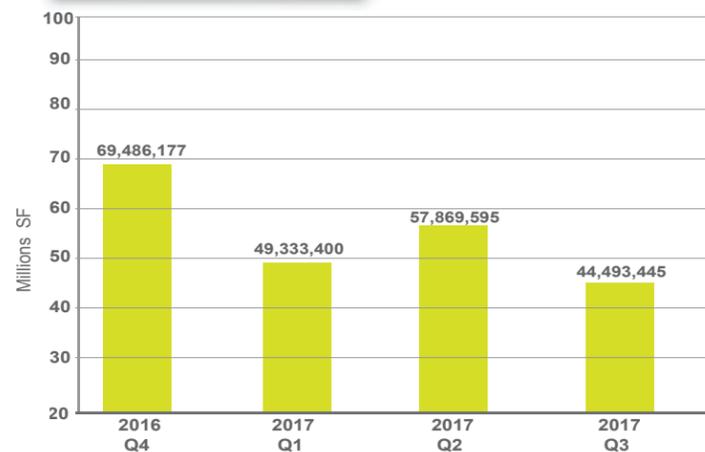
The overall national vacancy rate for warehouse and flex space across the country was unchanged at **5.2%** in the third period, and is just **20 basis** points lower than it was a year ago. Though, several major market areas still have vacancy rates under 4% with low levels of new deliveries, which is restricting transaction velocity. Vacancy remains lowest in the Los Angeles and Orange County areas with vacancy rates under **2.2%** and **2.7%**, respectively. The vacancy rate for the top **43** markets tracked by CoStar has been flat over the past four quarters, holding at **5.1%**. Most of the major industrial markets across the US have less than **7% vacancy**, with the exception of Phoenix, which fell 30 basis points in **Q3 to 8.9%**. Fortunately, new deliveries remain in good relative balance to net absorption, which, in part, explains the flattening vacancy rate, but also means the industrial sector is in little danger of being overbuilt in the near term.

Year-to-date, new deliveries totaled 208.4 million square feet while net absorption ended the same period at 206 million square feet. A significant portion of new construction is preleased, and speculative projects, especially those offering larger state-of-the-art distribution space, are leasing soon after completion. US industrial property inventory now stands at over 22 billion square feet with another 276 million square feet still under construction. Development activity remains focused primarily in the largest distribution hubs like Dallas, Chicago, Philadelphia, Atlanta and Southern California's Inland Empire where land where land is affordable enough for industrial projects. In fact, those five markets account for a third of the nation's industrial construction (approximately **91.2 million** square feet). Yet, the two largest projects under construction are manufacturing build-to-suits in secondary markets.

The largest, at **3.8 million** square feet, is the Giga factory near Reno, followed by Volvo's new 2.3-million-square-foot assembly facility in Charleston, South Carolina. Both projects will be completed next year. Short supply in many markets and new deliveries in others has combined to keep lease rates moving higher.

The overall average asking lease rate across the country rose 1.4% in Q3, adding another \$.09 to \$6.31. Unchanged is the fact that areas with the highest levels of construction have the strongest rent growth. Tenants looking to increase efficiency, are willing to pay more for first generation space and invest in new automation technology. Developers are also demanding higher lease rates to offset the rising cost of land and construction.

NET ABSORPTION \* For Top 42 Markets



# US INDUSTRIAL MARKET

## LOOKING AHEAD

The primary drivers of industrial demand remain firmly in place, even though overall economic growth remains tepid. The shift to e-commerce retailing has been and a boon to industrial markets across the country, especially the biggest distribution hubs. That is fortunate given the fact that, with a few major exceptions, growth in the manufacturing sector remains tepid, as indicated by lackluster job manufacturing job growth.

Until 2017, the automotive sector had been enjoying strong growth since the economic recovery began in earnest, but things have changed. **Sales** have slowed, especially for sedan-type vehicles, and we are beginning to see plant slowdowns and planned shutdowns designed to curtail excess supply. That means potentially lower revenues for thousands of parts suppliers that make up a significant portion of the nation's manufacturing sector. **Automotive** and **aircraft** manufacturing are the two large sources of manufactured goods in the US. So, when one of those takes a hit, the impact can be significant. Overall job and wage growth has been inconsistent of late, and manufacturing jobs tend to be full-time and higher paying, which makes the slowdown in the automotive industry that much more disconcerting. Part time positions and full time positions at the lower end of the wage skill already account for a significant portion of the total job growth as it is.

The yield on the **10-Year Treasury**, the benchmark for setting commercial mortgage stabilized in the **2.3%** range by the end of Q3, but another Fed rate hike, which many expect by the end of the year, could push that yield higher and send mortgage rates high enough to curtail construction and impact pricing for owner/user sales.

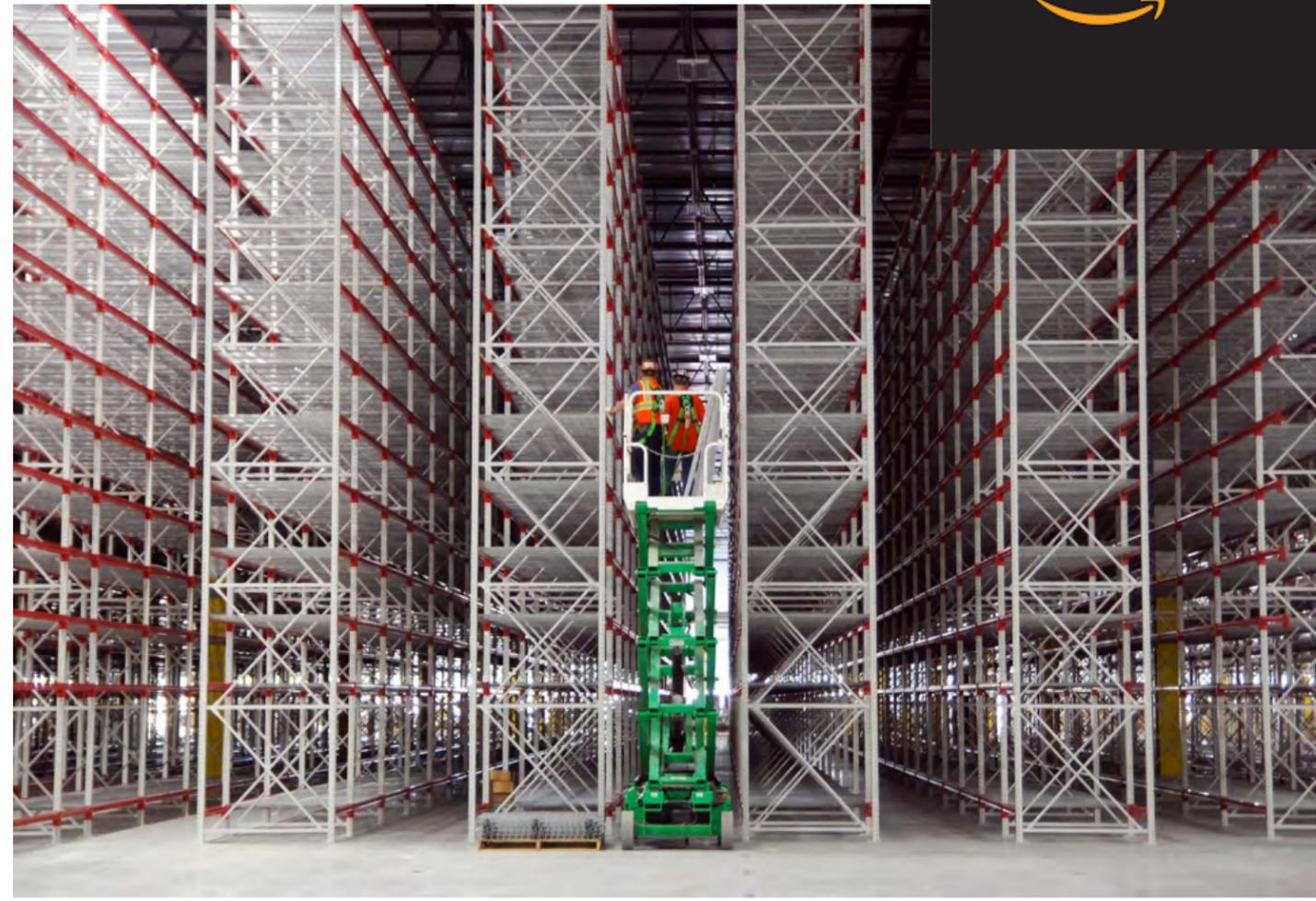
Oil prices have stabilized above **\$50 per barrel**, and that stimulated an increase in domestic oil production. Active rig count rose sharply early in the year, but has since leveled off. Domestic production increases has also stimulated crude oil exports, mainly from the Gulf coast, which is good news for the port cities in Texas and Louisiana, as that region remains in recovery mode after heavy damage from multiple hurricanes.

Leasing activity, vacancy, net absorption, construction and rent growth should stay in relative balance heading into the new year. Risk of overbuilding remains low, as developers and lenders are exercising caution, especially as it relates to speculative projects. All eyes are on the Fed as it contemplates further rate hikes and begins to execute its strategy for unwinding its **\$4.5 trillion** balance sheet. That combination has many experts concerned that the combination may cause a spike in commercial mortgage rates. Higher rates would likely lead to cap rate decompression, as investors look to maintain

## SELECT TOP INDUSTRIAL LEASES Q3 2017

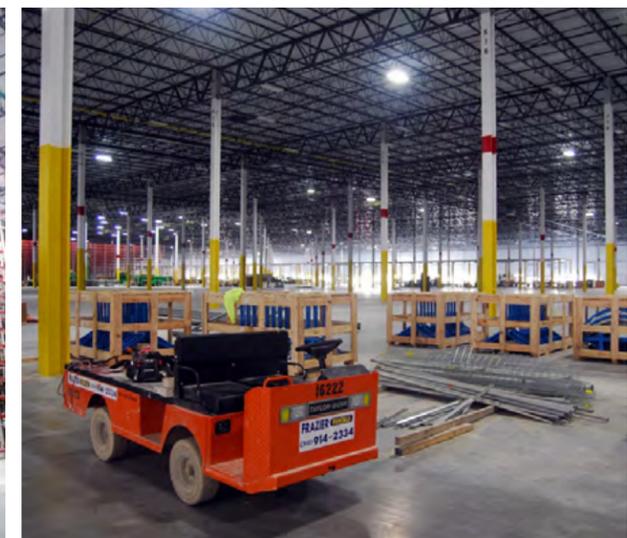
| BUILDING                           | MARKET              | SF        | TENANT NAME                       |
|------------------------------------|---------------------|-----------|-----------------------------------|
| 1 Brick Yard Rd - Bldg 1           | Northern New Jersey | 1,346,088 | Wayfair, Inc.                     |
| Majestic Airport Center IV Bldg A  | Atlanta             | 1,039,570 | ASOS                              |
| <b>3</b> Amazon Fulfillment Center | Detroit             | 856,000   | Amazon Fulfillment Services, Inc. |
| Pacific Palm Center                | Inland Empire       | 624,627   | JC Penney                         |
| Sandy Lake 121 Distribution Center | Dallas/Ft Worth     | 604,800   | Amazon.com, Inc.                  |
| Emser Tile                         | Houston             | 600,000   | Emser Tile                        |
| 533 W. Lower Buckeye Rd            | Phoenix             | 473,209   | Amazon.com, Inc.                  |
| 2 Turner Pl                        | Northern New Jersey | 451,800   | Cascades Containerboard Pkg       |
| 2120 Boeing Way                    | Stockton/ Modesto   | 451,611   | Whirlpool                         |
| Dry Warehouse                      | Atlanta             | 386,846   | Blackall Studios                  |
| UPS Columbus Hub II                | Columbus            | 375,000   | UPS                               |

### **3** inside the **Amazon** 865,000 SF fulfillment center



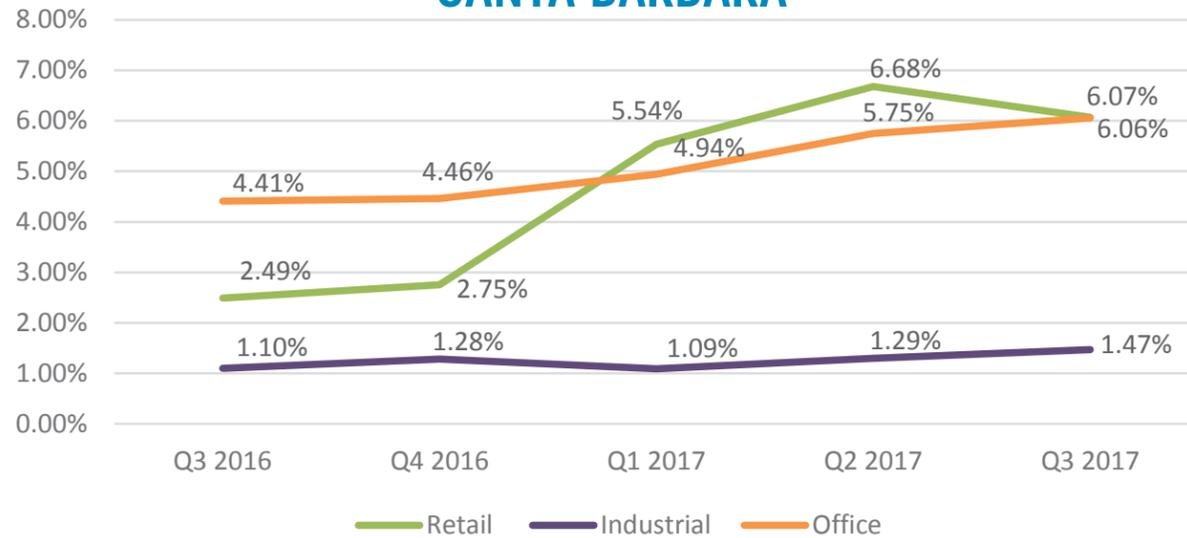
## SELECT TOP INDUSTRIAL SALES Q3 2017

| BUILDING                  | MARKET        | SF      | PRICE PSF | CAP RATE | BUYER                            | SELLER                     |
|---------------------------|---------------|---------|-----------|----------|----------------------------------|----------------------------|
| Gillem Logistics Center   | Atlanta       | 848,421 | \$54.40   | 5.75%    | Barins Real Estate Advisors, LLC | Rob inson Weeks Partners   |
| Neovia Logistics Services | Inland Empire | 406,714 | \$105.42  | 4.75%    | TA Realty                        | Cohen Asset Management,    |
| 8730 Bollman Pl           | Baltimore     | 447,555 | \$90.49   | 5.6%     | Goldman Sachs Group, Inc.        | Terreno Realty Corporation |
| Apex Distribution Center  | Houston       | 410,600 | \$98.15   | 5.6%     | WPT Industrial REIT              | Crow Holdings Industrial   |
| 13000 Darice Pkwy         | Cleveland     | 554,037 | \$72.20   | 6.16%    | VEREIT, Inc.                     | AIC Ventures               |



# SANTA BARBARA

## SANTA BARBARA



### MARKET HIGHLIGHTS

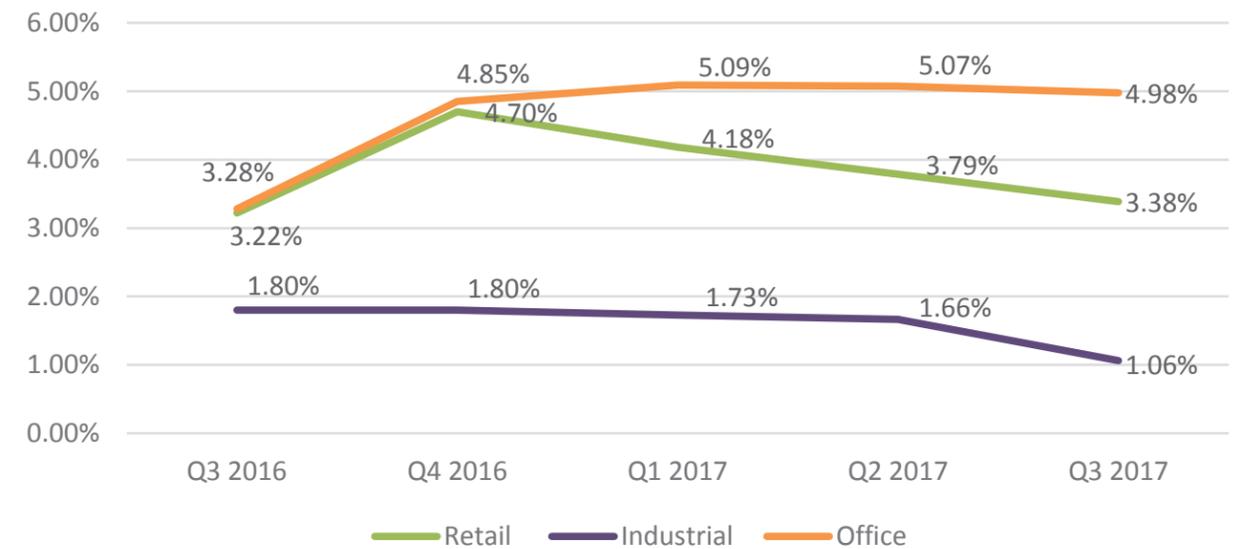
- The Santa Barbara sales market reported a slight growth during the quarter, with two notable investment sales: The **El Centro Office Building** and a multi-tenant retail building on State Street. A group of local investors purchased the **El Centro** office building, located at **19 East Canon Perdido Street**, for **\$8 million**. The historic downtown multi-tenant office/retail building is 82% occupied.
- The 7,956 square-foot multi-tenant building at **800 State Street** sold to a local investor for \$8.625 million at a **4.51%** cap rate. The asset is located in one of Santa Barbara's most desirable areas and is fully occupied with tenants: **Starbucks, Just Play Music, ICE Energy, and Lovebird Boutique**.
- Private retail investor, **Merlone Geier Partners** purchased the 122,000 square-foot retail building occupied by Kmart along with an adjacent strip building, located at **6875 Hollister Avenue**, Goleta for **\$20 million**. The property was purchased as a part of a portfolio sale between **Merlone Geier** and **Sears Roebuck Co**. Merlone Geier has been aggressively pursuing K-Mart properties with plans to add value through redevelopment and repositioning of the assets.



800 State Street, Santa Barbara

# SAN LUIS OBISPO

## SAN LUIS OBISPO



### MARKET HIGHLIGHTS

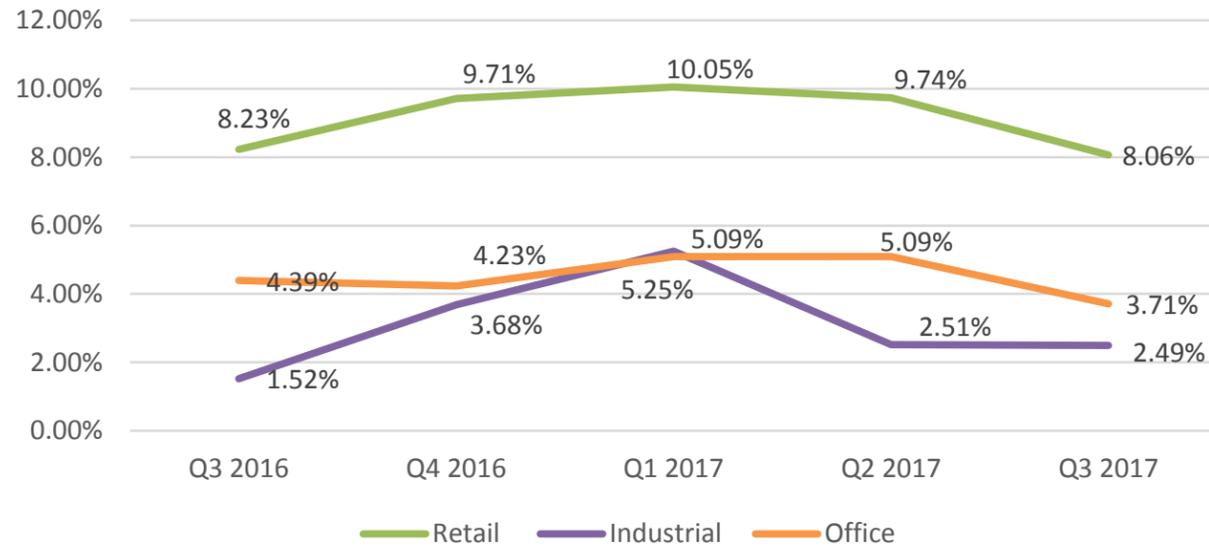
- GMH University Housing**, a privately owned real estate company specializing in the acquisitions, development, and management of student living, has broken ground on their mixed-use project, **The Academy Chorro**. Located steps away from California Polytechnic State University, the green initiative student housing project will feature 27 fully-furnished luxury apartments with ground floor retail, fitness center, automated parking garage, and high-speed Internet. Scheduled to open in Fall of 2018.
- The vacant **Sears** building located in the **Madonna Plaza** will be redeveloped from its existing **75,000** square-foot space into three smaller storefronts totaling 56,000 square-feet; a **25%** footprint reduction. **Ross Dress for Less, Michael's** and one unnamed tenant will occupy the newly outfitted space.



The Academy Chorro, San Luis Obispo

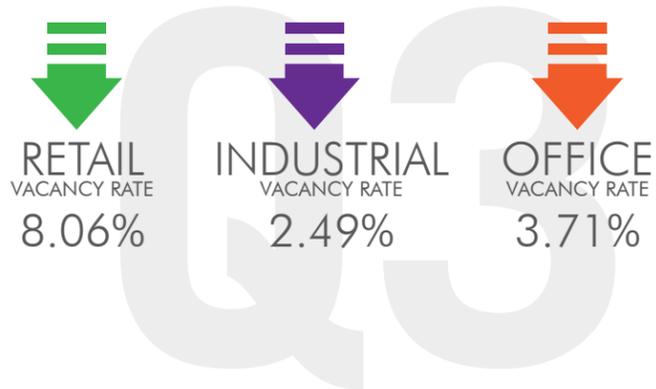
# LOMPOC

## LOMPOC



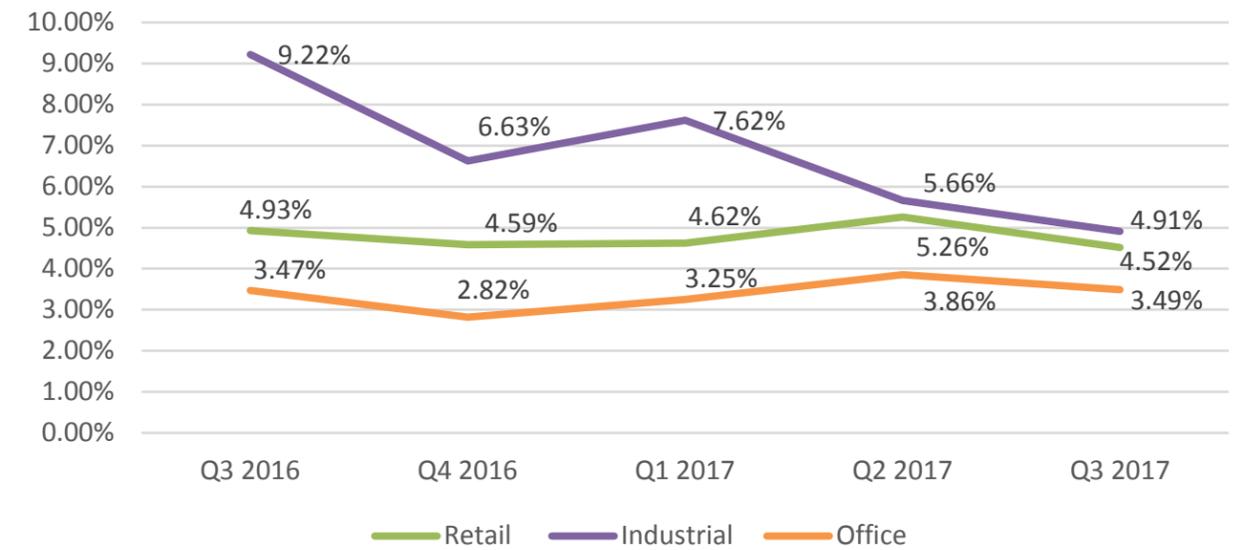
### MARKET HIGHLIGHTS

- LompoC's pending **Marijuana Legalization** is bound to spark new industrial demand in an already tight market. The City Council spent much of the quarter debating the proposed ordinance regarding the use of cannabis in the city. The council will ultimately need to adopt its own policies by the **November 21<sup>st</sup>** deadline in order to comply with **Prop 64**. Council concerns included limitations on the number of cannabis businesses in the city, real-time security surveillance by the LompoC Police Department and the appeals process only being heard by the City Manager. A version of a revised ordinance is scheduled for review and is fully expected **to pass**.



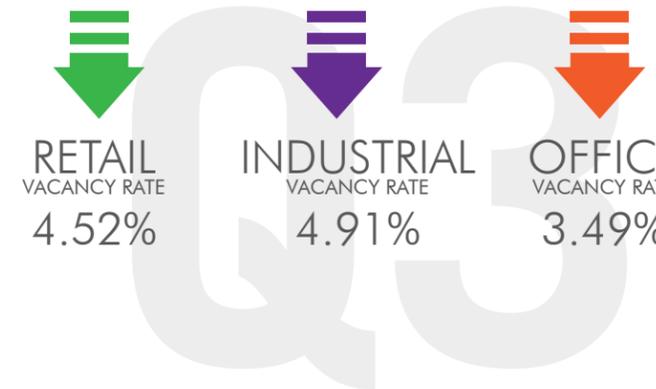
# PASO ROBLES

## PASO ROBLES



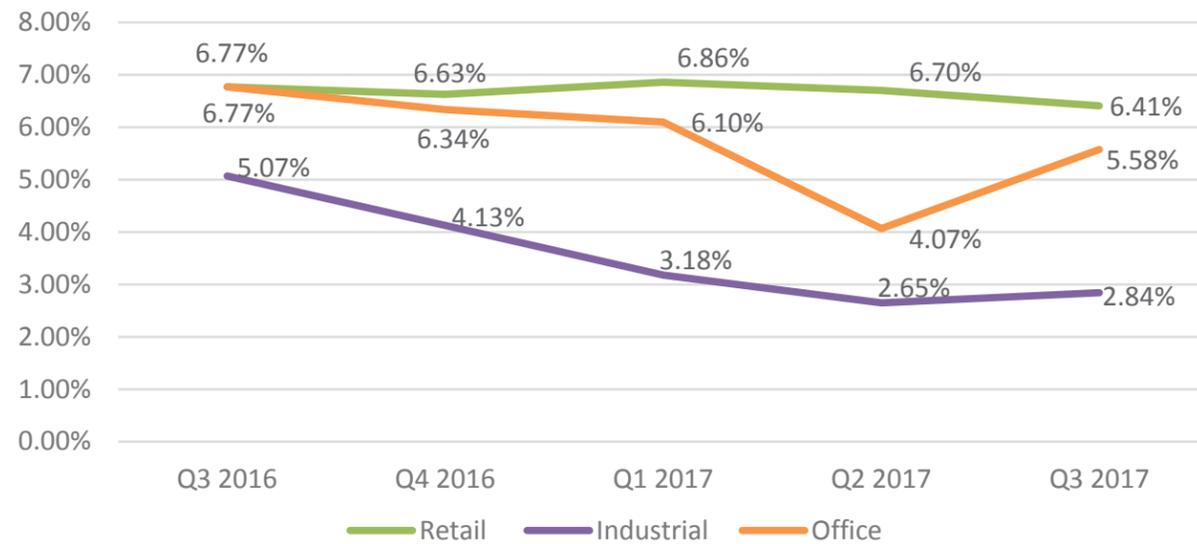
### MARKET HIGHLIGHTS

- Community Health Centers of the Central Coast** continues its expansion efforts with the 22,000 square-foot retail lease located at 2800 Riverside Drive. The space is centrally located on Highway 46, across from the Golden Hills Plaza, adjacent to **Grocery Outlet** and **Tractor Supply Co.** Community Health Centers operates more than 28 clinics throughout San Luis Obispo and northern Santa Barbara counties and specializes in supplying health services to low income and uninsured patients.
- While the large industrial building located at **1650 Ramada Drive**, formerly occupied by Paris Precision remains vacant, supplies of quality industrial space are declining across San Luis Obispo County and rents keep moving higher. Solar energy equipment supplier **Nexus Energy Systems** leased 16,000 square-feet of industrial warehouse space on Golden Hill Road.



# SANTA MARIA

## SANTA MARIA





**RETAIL**  
VACANCY RATE  
**6.41%**



**INDUSTRIAL**  
VACANCY RATE  
**2.84%**



**OFFICE**  
VACANCY RATE  
**5.58%**

### MARKET HIGHLIGHTS

- **The Santa Maria Valley** continues to be a hotbed of development activity with Enos Ranch Development embracing the grand opening of the new, larger **Costco store**, located at 1700 S. Bradley Road. Costco's recent move from its former location at 1335 S Bradley Road has left a large, 130,000 square-foot vacancy in the market. The big-box building will likely be repurposed for other uses, meeting consumer demand, converting into other types of retail-oriented stores. **Santa Maria Ranch** will welcome the following retailers, expected to open their doors between January and April 2018: DICK's Sporting Goods, Petco, Old Navy, ULTA Beauty, Kirkland's Home Dècor and more.
- REIT, Rich Uncles purchased the 14,490 square-foot **Walgreens** located at 707 North Broadway for **\$5.125 million** at a **7.20%** cap rate.



Walgreens, Santa Maria

## INDUSTRIAL

### Regional Snapshots Around the West

| REGION             | VACANCY % | AVG RR/SF | NET ABSORPTION | INVENTORY   | UNDER CONSTRUCTION |
|--------------------|-----------|-----------|----------------|-------------|--------------------|
| Boise              | 3.5       | 6.21      | 570,914        | 42,986,807  | 329,680            |
| Denver             | 5.0       | 8.47      | 2,335,483      | 301,707,070 | 8,237,762          |
| East Bay/Oakland   | 3.7       | 11.75     | (644,843)      | 264,231,807 | 1,742,353          |
| Inland Empire East | 4.92      | 8.08      | 6,436,721*     | 209,825,355 | 18,697,989         |
| Inland Empire West | 1.7       | 7.15      | 13,132,901*    | 303,503,315 | 8,778,657          |
| Los Angeles        | 2.2       | 10.13     | 1,958,220      | 995,377,826 | 5,779,167          |
| Orange County      | 2.9       | 11.28     | 190,167        | 278,094,112 | 1,304,754          |
| San Diego          | 4.8       | 12.50     | 291,030        | 190,218,123 | 1,811,603          |
| Seattle            | 3.4       | 9.22      | 2,342,957      | 316,964,851 | 6,205,070          |
| Stockton           | 3.2       | 4.51      | 998,996        | 157,406,795 | 4,752,264          |

\* Reported on Gross Absorption



# WINE COUNTRY



**1 Acres: 1,222.17**  
 Seller: **Gainey Joint Ranch LLC**

The privately-held Wine Group LLC, the world's second-largest wine producer by volume, quietly purchased a portion of the Gainey Vineyard for \$34 million. The 1,200-acre Home Vineyard site is located at the eastern end of the Santa Ynez Valley and is named for a 1,800-acre ranch that has been the Gainey family's home for over 50 years. Planted between 1983 and 2014, the vineyard boasts an ideal climate and range of soil types for Bordeaux and select Rhône varieties. Based in Livermore, California, The Wine Group's portfolio of leading brands, include Cupcake, Franzia, flipflop, and Almaden.

Price: **\$34,250,000**  
 Buyer: **The Wine Group LLC**

**2** 2900 Gypsy Canyon Rd., Lompoc  
 Price: \$2,650,000  
 Acres: 168.9  
 Sale Price/Acres: \$15,689.76  
 Seller: Reh Property LLC  
 Buyer: High Meadows LLC

Nestled in a private and peaceful valley on a level road about two miles north of Highway 246, within the STA Rita Hills Appellation. The property includes a barn and plenty of storage.

**3** 3777 Roblar Ave Santa Ynez  
 Price: \$1,137,500  
 Acres: 9.77  
 Sale Price/Acres: \$116,427.84  
 Seller: Stag Canyon Vineyards LLC  
 Buyer: Amalfi Investment Properties LLC

Located on the highly sought after Roblar corridor. Overlooking three acres of an ultra premium vineyard, designated in the new Los Olivos AVA, in its third leaf year, professionally farmed Bordeaux varietal grapes: 2 acres Cabernet Sauvignon, 1/2 acre Malbec, and 1/2 acre Petit Verdot.

# WINE COUNTRY

California's grape harvest occurs in late August to early October with some grapes being harvested throughout the fall. As of August 2017, California Department of Food and Agriculture estimated the overall state crop would reach **4 million tons**, exceeding the historical average of **3.9 million tons**. While the wildfires in Northern California scorched over **199,000 acres**, the Wine Institute reports that the overall state crop was not significantly affected. According to their report, Napa, Sonoma and **Mendocino counties**, the regions most impacted, grow **12 percent** of California's wine grapes, and 90% percent of the harvest in Napa and Sonoma were already picked and in production prior to the fires.



PASO ROBLES

Vintners are predicting a very good vintage despite hurdles during the season. Spring was mild and wet, followed by a period of unusually warm and humid weather that resulted in sporadic downy mildew on **Central Coast** vineyards. Warm weather during most of the growing season, coupled with drought busting rains, created vigorous growth and more clusters per vine. An extended cool period during bloom caused shatter in some varieties, but also created loose, open clusters that allowed beneficial air and light penetration.

A nine-day heat spike that began late August pushed picking decisions ahead of schedule and dramatically reduced crop sizes for some vintners. Heat damage was seen throughout the region, with certain areas faring better than others. Even so, vintners are optimistic about quality. The fruit is showing great intensity, with lower Brix levels and higher acids than normal.



SAN LUIS OBISPO

Harvest began on August 21<sup>st</sup>, a few weeks later than recent years, but in more in line with pre-drought start dates. Overall, the season ran two to three weeks later than 2016 due to heavy rainfall which delayed bud break and other key season milestones. Heavy rains resulted in increased botrytis and mildew pressure, but also provided vigorous shoot growth that balanced the crop load and canopy. Vines fared well during the Labor Day weekend heat spike, which had a shorter duration in SLO than in many other regions. Good soil moisture helped mitigate the effects of the heat and vintners are optimistic about the vintage. **Chardonnay** yields are a bit higher than average and **Pinot Noir** is just below. Both are showing good flavor development, with a little less acidity than usual.



SANTA BARBARA

The growing season got off to a **good start**, with generous winter rainfall and warm spring temperatures that prevented spring frost issues. The winter rains contributed to strong canopy growth and reduced the need for irrigation. High temperatures and humidity in late August and early September contributed to increased fungal pressure, but vintners reported no significant fruit damage. Harvest began in the third week of August. Fruit quality was above average, characterized by small berries with good color and concentration in the reds. Clusters were also smaller than normal, resulting in yield reductions for **Pinot Noir** and **Chardonnay**. Yields were average to nearly 50% of normal.

# HOSPITALITY

Hotel occupancy on the **Central Coast** held steady in 2017, despite increases in supply, indicative of the robust hospitality market. The City of **Santa Barbara** outperformed neighboring regions, welcoming approximately 7.2 million visitors between September 2016 and August 2017, an increase of about **1.1 million** compared to 2013<sup>1</sup> delivering \$1.9 billion in visitor-related spending to the local economy. The **UCSB Economic Forecast Project** notes that, as of September 2017, employment in the leisure and hospitality industry represented 14.2 percent (28,941 jobs) of Santa Barbara County's total, while the retail trade industry's jobs represented 9.4 percent of total employment.

Downtown Santa Barbara will dominate with the recent opening of the **Californian Hotel**, part of the **La Entrada** development project, and the site of the original **1925 Hotel Californian**, this 121-room luxury boutique hotel will star as the new center of the Santa Barbara Waterfront.

**San Luis Obispo's** overdue supply wave will commence in 2018. Existing inventory covers 40 establishments representing **2,226 rooms**, and over **\$7.3 million** in TOT revenues for the 2016-2017 fiscal year, up **2.8%** year to date over the prior year. Occupancies have neared the 80% mark in 2017, and expectations are for the new supply to be more than matched by tourism demand.

Looking ahead, we anticipate Santa Barbara's robust tourism foundation will see elevated activity in both the renovation of existing hotels and rise of new opportunities, while San Luis Obispo will start to see opportunities for new supply within one to three years.

**SOLD**

**\$8,675,000**

**Best Western plus Holiday Inn | ATASCADERO**

**75 Rooms**      **Features:** 6,000 SF retail building includes 3,500 SF meeting space, bar, dance floor.  
**Total Space:** 45,615 SF    **Lot Size:** 3.70 Acres    **Stories:** 3    **Buyer:** Central Coast Hotels LLC

**\$24,937,000**

**SpringHill Suites by Marriott | ATASCADERO**

**130 Rooms**      **Features:** 3 meeting rooms, 5009 SF of meeting space  
**Stories:** 4      **Buyer:** Daon Properties LLC

**\$243,854,000**

**The Ritz Carlton Bacara | GOLETA**

**358 Rooms**      **Features:** 42,000 SF spa and fitness center  
**Lot Size:** 78 Acres      **Buyer:** Carey Watermark Investors- a Real Estate Investment Trust  
**Seller:** Previously owned by Hawaii based Ohana Real Estate Investors and Rockpoint Group who bought it for \$104 Million.  
They spent \$5 Million to renovate the hotel and will rebrand the hotel as The Ritz Carlton Bacara, Santa Barbara



Credits:

1. Analysis conducted by the same tourism industry research company, San Francisco-based Destination Analysts Inc.  
2. UCSB Economic Forecast Project      3. City of San Luis Obispo Monthly Transient Occupancy Tax (TOT)

# HOSPITALITY

**OPENED**

**Hotel Californian | SANTA BARBARA**

**121 Rooms**

**Features:** Three on-site Restaurants, Spa and Boutique  
**Commercial Space:** 9,041 SF      **Lot Size:** 2.39 Acres  
**Opened:** September 2017



**Hilton Garden Inn | GOLETA**

**138 Rooms**

**Features:** On-site Restaurant and Rooftop Bar  
**Commercial Space:** 95,678 SF      **Lot Size:** 3.05 Acres  
**Opened:** November 2017



**Hampton Inn & Suites | BUELLTON**

**99 Rooms**

**Features:** Pool and Bocce Court  
**Commercial Space:** 61,692 SF      **Lot Size:** 3.53 Acres  
**Opened:** February 2017



**OPENING SOON**

**Rosewood Miramar Hotel | MONTECITO**

**124 Rooms** and **37 Luxury Suites**

**Features:** 6 Restaurants + Bars, 12,000 SF of Indoor and Outdoor Event Space + 6,000 SF Ballroom  
**Lot Size:** 16 Acres  
**Status:** Summer 2018

**Hilton Garden Inn | LOMPOC**

**156 Rooms**

**Total Space:** 108,000 SF project  
**Status:** December 2017

**Inn at the Pier | PISMO BEACH**

**104 Rooms**

**Features:** Rooftop Bar, Blonde Restaurant, Rooftop Pool, +4,800 SF of flexible event space  
**Status:** Winter 2017

**Hotel San Luis Obispo | SAN LUIS OBISPO**

**78 Rooms**

**Features:** Restaurant, Meeting Space, pool and Spa  
**Total Space:** 42,000 SF  
**Status:** Fall 2018

**PROPOSED**

**Mattei's Tavern | 2350 Railway Ave. | LOS OLIVOS**

**64 Rooms**

**Features:** Restaurant, full service spa + outdoor pool with bar, retail boutique, gym, 3,000 SF meeting space.

**Total Space:** 49,617 SF

**Status:** Existing building and land sold in 2017 for **\$11,525,000**

**Peninsular Realty Project | 5955 Calle Real | GOLETA**

**148 Rooms**

**Status:** Under Review

**Ed St. George Project | 308 W. Montecito St. | SANTA BARBARA**

**32 Rooms**

**Features:** 847 SF Public Art Space and 52 parking spaces

**Total Space:** 56,302 SF      **Status:** Indefinite Continuance

**926 Indio Muerto | SANTA BARBARA**

**111 Rooms**      **Total Space:** 62,541 SF

**Parking:** 121 spaces + 39 bike spaces

**Status:** Approved Site Plan

**San Luis Ranch | HYW 101/Maddona Rd. | SAN LUIS OBISPO**

**111 Rooms**

**Site:** 3.5 Acres

**Status:** Approved

# NOTABLE SALES Q3 2017

## BACARA RESORT, GOLETA

**Property:** Hospitality  
**Size:** 311 Rooms  
**Sale Price:** \$243,854,000  
**Sale Per/SF:** \$609.64  
**Sale Date:** 09/2017

1



## GAINNEY VINEYARD, SANTA YNEZ

**Property:** Land  
**Size:** 1,222 ACRES  
**Sale Price:** \$34,250,000  
**Sale Per/Ac:** \$28,024  
**Sale Date:** 09/2017

2



## SPRINGHILL SUITES BY MARRIOTT ATASCADERO

**Property:** Retail / Hospitality  
**Size:** 130 Rooms  
**Sale Price:** \$24,937,000  
**Sale Per/SF:** \$311.71  
**Sale Date:** 08/2017

3



## 6875 HOLLISTER AVE., GOLETA

**Property:** Retail  
**Size:** 132,684 SF  
**Sale Price:** \$20,000,000  
**Sale Per/SF:** \$150.73  
**Sale Date:** 07/2017

4



## MATTEI'S TAVERN LOS OLIVOS

**Property:** Retail / Hospitality  
**Size:** : 25,986 SF  
**Sale Price:** \$11,525,000  
**Sale Per/SF:** \$443.51  
**Sale Date:** 08/2017

5



## BEST WESTERN PLUS COLONY INN ATASCADERO

**Property:** Hospitality  
**Size:** 73 Rooms  
**Sale Price:** \$8,675,000  
**Sale Per/SF:** \$289.17  
**Sale Date:** 08/2017

6



### AVERAGE PRICE PER SF

| SANTA BARBARA (per/SF)             | SAN LUIS OBISPO (per/SF)           | LOMPOC (per/SF)              |
|------------------------------------|------------------------------------|------------------------------|
| <b>RETAIL</b> \$691.14             | <b>RETAIL</b> NO SALES             | <b>RETAIL</b> NO SALES       |
| <b>OFFICE</b> \$463.80             | <b>OFFICE</b> \$340.50             | <b>OFFICE</b> \$107.67       |
| <b>INDUSTRIAL</b> \$390.50         | <b>INDUSTRIAL</b> \$350.55         | <b>INDUSTRIAL</b> \$128.00   |
| <b>MULTI-FAMILY</b> \$331,142/unit | <b>MULTI-FAMILY</b> \$250,000/unit | <b>MULTI-FAMILY</b> NO SALES |

| SANTA MARIA (per/SF)               | PASO ROBLES (per/SF)               |
|------------------------------------|------------------------------------|
| <b>RETAIL</b> \$227.25             | <b>RETAIL</b> \$403.00             |
| <b>OFFICE</b> \$247.00             | <b>OFFICE</b> NO SALES             |
| <b>INDUSTRIAL</b> \$134.00         | <b>INDUSTRIAL</b> \$151.00         |
| <b>MULTI-FAMILY</b> \$140,000/unit | <b>MULTI-FAMILY</b> \$104,750/unit |

All information furnished regarding financing is from sources deemed reliable, but no warranty or representation is made to the accuracy thereof and same is submitted to errors, omissions, change of price, rental or other conditions prior to sale, lease or financing or withdrawal without notice.

# NOTABLE LEASES Q3 2017

## 7410 HOLLISTER AVE., GOLETA

**Tenant:** TrackR  
**Property:** Office  
**Size:** 38,000 SF  
**Lease Date:** 08/2017

1



## 273 MADONNA RD., SAN LUIS OBISPO

**Tenant:** Ross Dress For Less  
**Property:** Retail  
**Size:** 22,202 SF  
**Lease Date:** 08/2017

2



## 2800 RIVERSIDE AVE., PASO ROBLES

**Tenant:** Community Health Centers of the Central Coast  
**Property:** Retail  
**Size:** 22,000 SF  
**Lease Date:** 09/2017

3



## 273 MADONNA RD., SAN LUIS OBISPO

**Tenant:** Michaels  
**Property:** Retail  
**Size:** 21,729 SF  
**Lease Date:** 08/2017

4



## 879 WARD DR., GOLETA

**Tenant:** Sonatech  
**Property:** Industrial  
**Size:** 18,253 SF  
**Lease Date:** 09/2017

5



## 2208 GOLDEN HILL RD., PASO ROBLES

**Tenant:** Nexus Energy Systems Inc  
**Property:** Industrial  
**Size:** 16,200 SF  
**Lease Date:** 07/2017

6



### AVERAGE ASKING LEASE RATES (GROSS)

| SANTA BARBARA (per/SF)   | SAN LUIS OBISPO (per/SF) | LOMPOC (per/SF)          |
|--------------------------|--------------------------|--------------------------|
| <b>RETAIL</b> \$4.38     | <b>RETAIL</b> \$2.53     | <b>RETAIL</b> \$1.33     |
| <b>OFFICE</b> \$2.84     | <b>OFFICE</b> \$1.92     | <b>OFFICE</b> \$1.14     |
| <b>INDUSTRIAL</b> \$2.15 | <b>INDUSTRIAL</b> \$1.45 | <b>INDUSTRIAL</b> \$1.15 |

| SANTA MARIA (per/SF)     | PASO ROBLES (per/SF)     |
|--------------------------|--------------------------|
| <b>RETAIL</b> \$1.97     | <b>RETAIL</b> \$1.32     |
| <b>OFFICE</b> \$1.45     | <b>OFFICE</b> \$1.48     |
| <b>INDUSTRIAL</b> \$0.75 | <b>INDUSTRIAL</b> \$0.81 |

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### THE LEE & ASSOCIATES CENTRAL COAST TEAM

#### PRINCIPAL TEAM



CLARICE CLARKE



STEVE LEIDER



MARTY INDVIK

#### BROKER TEAM



TOM DAVIDSON



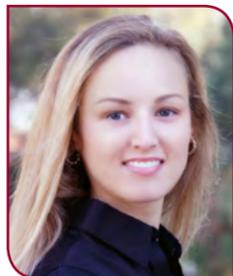
CHRISTI VIOR



JEFF ALLEN



ROB ADAMS



NATALIE V. WAGNER



PAUL DAVIES



EVAN LASH



DAVID BARTOLOMUCCI

#### OFFICE SUPPORT TEAM



SHARIF ELSEIFY  
Research Analyst



KAREN HELTON  
Administrative Director



ANA STORK  
Marketing Manager



### Nationwide Lee Offices

**Arizona**  
Fred Darche  
602.956.7777  
Phoenix, AZ 85018

**California**  
Clarice Clarke  
805.898.4362  
Santa Barbara, CA 93101  
(Central Coast)

Brian Ward  
760.346.2521  
Palm Desert, CA 92260  
(Greater Palm Springs)

John Hall  
949.727.1200  
Irvine, CA 92618

Mike Tingus  
818.223.4380  
LA North/Ventura, CA 91302

Craig Phillips  
323.720.8484  
Commerce, CA 90040  
(LA Central)

Robert Leveen  
213.623.1305  
Los Angeles, CA 90071  
(LA ISG)

Greg Gill  
562.354.2500  
Long Beach, CA 90815  
(Los Angeles)

Aleks Trifunovic  
310.899.2700  
Santa Monica, CA 90404  
(LA West)

Steve Jehorek  
949.724.1000  
Newport Beach, CA 92660

Craig Phillips  
562.699.7500  
City Of Industry, CA 91746

Craig Hagglund  
510.903.7611  
Oakland, CA 94607

**BC CANADA**

**WEST**

Craig Phillips  
323.720.8484  
Pasadena, CA 91101

Mike Furay  
925.737.4140  
Pleasanton, CA 94588

Dave Illsley  
951.276.3626  
Riverside, CA 92507

Dave Howard  
760.929.9700  
Carlsbad, CA 92008  
(San Diego North)

Steve Malley  
858.642.2354  
San Diego, CA 92121  
(San Diego UTC)

Tom Davis  
209.983.1111  
Stockton, CA 95206

Dave Illsley  
951.276.3626  
Murrieta, CA 92562  
(Temecula Valley)

Don Brown  
760.241.5211  
Victorville, CA 92392

Mike Furay  
925.369-0309  
Walnut Creek, CA 94596

**EAST**

**SOUTH**

**Georgia**  
Dick Bryant  
404.442.2810  
Atlanta, GA 30326

Victor Segrest  
404.781.2140  
Atlanta, GA 30328 (Appraisal)

**Idaho**  
Matt Mahoney  
208.343.2300  
Boise, ID 83703

**Illinois**  
James Planey  
773.355.3014  
Rosemont, IL 60018 (Chicago)

**Indiana**  
Scot Courtney  
317.218.1038  
Indianapolis, IN 46240

**Maryland**  
J. Allan Riorda  
443.741.4040  
Columbia, MD 21046

**Michigan**  
Jon Savoy  
248.351.3500  
Southfield, MI 48034

**Minnesota**  
Chris Garcia  
952.955.4400  
Minneapolis, MN 55401

**Missouri**  
Thomas Homco  
314.400.4003  
St. Louis, MO 63114

**New Jersey**  
Rick Marchiso  
973.475.7055  
Elmwood Park, NJ 07407

**New York**  
Jim Wacht  
212.776.1202  
New York, NY 10022

**Ohio**  
Brad Coven  
216.282.0101  
Pepper Pike, OH 44124  
(Cleveland)

Tim Kelton  
614.923.3300  
Dublin, OH 43017  
(Columbus)

**Pennsylvania**  
John Van Buskirk  
717.695.3840  
Camp Hill, PA 17011

**South Carolina**  
Bob Nuttall  
843.747.1200  
Charleston, SC 29492

Randall Bentley  
864.704.1040  
Greenville, SC 29601

**Texas**  
Trey Fricke  
972.934.4000  
Addison, TX 75001  
(Dallas/Fort Worth)

Chris Lewis  
713.660.1160  
Houston, TX 77027

**Wisconsin**  
Todd Waller  
608.327.4000  
Madison, WI 53713

**Washington**  
Jim Bowles  
206.773.2673  
Seattle, WA 98101

**BC Canada**  
Chris Anderson  
604.684.7117  
Vancouver, British Columbia

**Gerald Eve**   
James Southey  
+44 (0) 20 7333 6226  
www.geraldeve.com

**Denver**  
John Bitzer  
303.296.8770  
Denver, CO 80202

**Florida**  
Jerry Messonnier  
239.210.7610  
Ft. Myers, FL 33966 (Naples)

Tom McFadden  
321.281.8501  
Orlando, FL 32839

**Nevada**  
Lyle Chamberlain  
775.851.5300  
Reno, NV 89501



## The Lee Central Coast Brief

[leecentralcoast.com](http://leecentralcoast.com)

# 03

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