



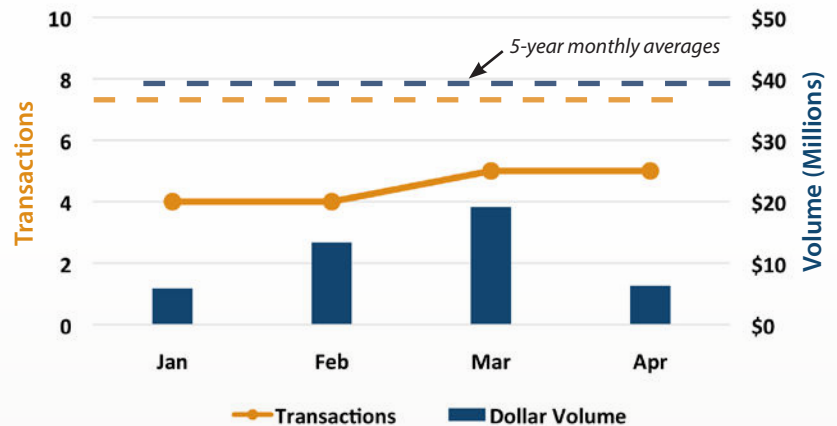
May 15, 2020

Commercial Sales: buyers in quarantine

Halfway through the second quarter, South Coast commercial sales activity has been well below normal levels, as predicted. The economic slowdown resulting from the coronavirus has largely put buyers on hold. It is interesting to note, however, that January was the slowest month of the year to date, which can't be blamed on the pandemic.

There were five sales totaling \$6.3 million in April. All were smaller sales, under \$2 million, and all were in Santa Barbara. Two of the sales were owner-user purchases. There are no commercial sales reported so far in May (as of May 15), though there are a few properties under contract.

YTD Sales Activity by Month
(all property types)



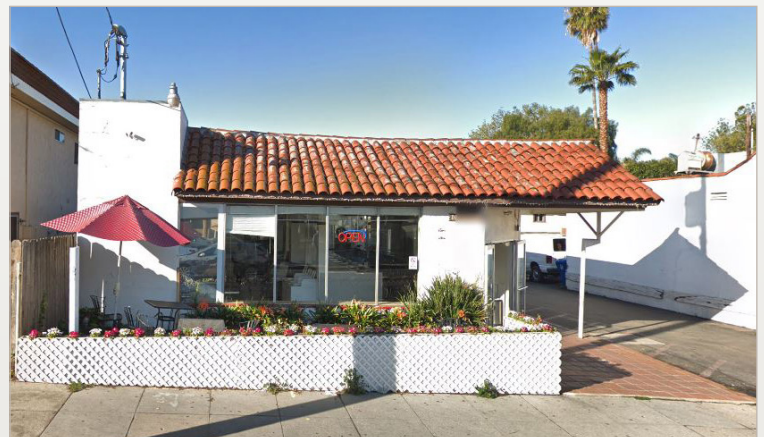
SALES MARKET CHANGES BY MONTH

	Feb	Mar	Apr	May*	Total
New Listings	7	5	6	5	23
Price Reductions	4	4	0	1	9
Canceled Listings	2	3	4	0	9
On-Market Sales	3	3	2	0	8
Off-Market Sales	1	2	3	0	6
Properties For Sale	75	74	74	79	

South Coast commercial property, all types. * Through May 15

For the rest of the quarter and Q3, all indicators are expected to reflect the current economic downturn, and transaction momentum may slow even more. The balance of 2020 and most likely all of 2021 will be a challenging time to sell commercial real estate, as the gap between seller and buyer price expectations will be large. However, we may see a relatively steady undercurrent of off-market transactions as opportunistic buyers approach owners of struggling assets.

Aside from sales transactions, we are also tracking other changes to the market, as shown in the table to the left. Inventory of properties for sale has started to ramp up, as there have been 9 new listings in the past 3 weeks. One might expect there to be more price reductions since the beginning of April, but sellers may be waiting to see what happens with reopening measures before formally reducing price. We would have included canceled escrows in the table, but there haven't been any reported, which is both surprising and heartening.



The multi-tenant retail building at 1911 De La Vina St in Santa Barbara was purchased by an investor in an off-market deal.

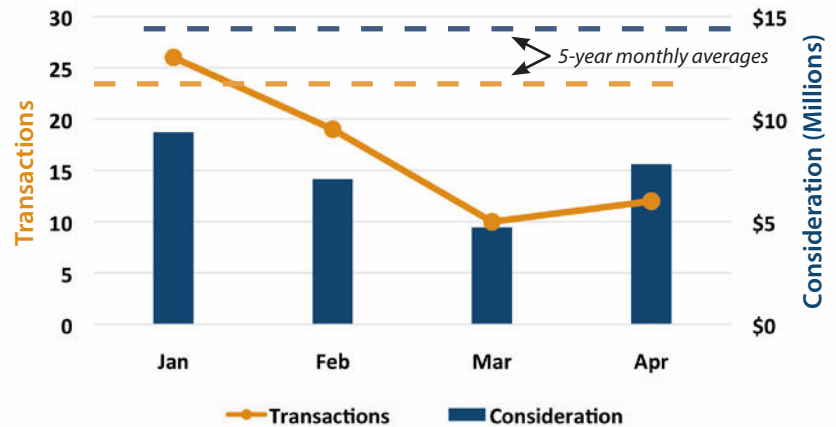
Commercial Leasing: the calm before the storm?

The slowdown in leasing activity seen in the second half of Q1 has persisted so far in Q2. The total number of spaces available has expanded by 15% since the beginning of the year, and we expect the rise in vacancy resulting from the coronavirus pandemic will continue through the remainder of the year.

As the graph shows, the decline in lease transactions seen in the first quarter leveled off in April. Two of the April deals were long-term leases that gave a small boost to the consideration total for that month: Farm and Ranch Management Services leased 20,794 SF at 5756 Thornwood Dr in Goleta, and Aqua-Flo Supply secured 7,386 SF at 18 S Milpas St in Santa Barbara on a 15-year lease. Even so, April volume for both transactions and consideration was about half of the prior 5-year monthly averages.

The table to the right shows additional indicators of market activity, broken down by month. Industry analysts project that the economic slowdown will cause a wave of sublease listings and rent reductions, neither of which have hit the South Coast yet, but would not be surprising to see in the coming months. Transaction velocity was subdued in the first half of May (producing a meager \$1.8 million in consideration), combined with a jump in new listings. Spaces for lease are on an upward trajectory, though only 19% of new listings so far in Q2 were retail or restaurants.

YTD Lease Activity by Month
(all property types)



LEASING MARKET CHANGES BY MONTH

	Feb	Mar	Apr	May*	Total
New Lease Listings	19	10	15	14	58
New Sublease Listings	5	10	7	0	22
Rent Reductions	5	4	2	1	12
Canceled Listings	1	2	3	1	7
Leases	16	6	8	2	32
Subleases	1	0	0	0	1
Renewals/Expansions	2	4	4	2	12
Spaces For Lease	206	220	231	242	

South Coast commercial property, all types. *Through May 15



The 7,386 SF Retail/Industrial building at 18 S Milpas St in Santa Barbara was leased for 15 years by Aqua-Flo Supply.

The sputtering economy and prevailing uncertainty continue to place pressure on most tenants, forcing difficult decisions regarding employees, rent, and how (or even whether) to reopen. It's no picnic for landlords either, facing decreased rental income and choices limited by market conditions and government intervention. Leasing activity has slowed to a crawl, compared to pre-pandemic levels, and will likely remain so through the summer.

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