



The economic impact of the COVID-19 pandemic was still evident in the South Coast commercial real estate market in Q1, with virtually all indicators diminished compared to pre-pandemic levels. However, as the spring progresses, our brokers report a noticeable growth in activity and are cautiously optimistic that Q1 will prove to be the last stagnant quarter of the current cycle. Here are some summary points on Q1:

- Transaction value decreased 42% for sales and 30% for lease consideration, compared to Q1 5-year averages.
- Off-market sales and purchases by owner-users both dropped substantially, perhaps indicating “pandemic fatigue” in demand
- Lease transactions and gross absorption decreased 25% and 44% respectively compared to Q1 5-year averages.
- The available inventory of 263 spaces for lease is the largest on record.
- On the positive side, deal velocity picked up later in the quarter—combined transaction value grew from \$15M in January to \$55M in March—and has continued to advance so far in Q2.

COMMERCIAL SALES

The remarkable story of 2020 was the unexpected surge of 51 commercial sales in the second half of the year, in the midst of a slumping and uncertain pandemic economy. By contrast, the first quarter of 2021 brought a pronounced downshift in transactions, with just 15 sales closed, a 30% decrease against the quarterly 5-year average.

Similarly, the dollar volume of \$54 million was 42% lower than the prior 5-year average. Furthermore, the quarter's three highest priced sales were a senior care facility (160 S Patterson Ave, sold for \$14 million), an RV park (7368 Hollister Ave, sold for \$10 million), and a school campus (260 San Ysidro Rd, sold for \$5.7 million). The core commercial types of retail, office and industrial properties represented just \$21 million in sales, a drop of 72% compared to the 5-year average.

Among the handful of office sales was the multi-tenant building at 5951 Encina Rd in Goleta, purchased by an investor for \$4.8 million. Also of note, the former Enterprise Fish building at 225 State St traded hands in February for the second time in 6 months, purchased by an investor for \$3.6 million with Silver Air on board as the long-term office tenant.

Owner-users played a more limited role, producing four of the 15 sales, including the aforementioned education property in Montecito purchased by Laguna Blanca School. There were fewer off-market sales as well, the largest of which was the senior care property at 160 S Patterson Ave in Goleta mentioned above.



The 16,787 sf multi-tenant office building at 5951 Encina Rd in Goleta was purchased by an investor for \$4.8M.

The decrease in sales echoes the dip in momentum in Q1 of 2020, which also produced 15 sales. While the result is the same, the context is very different now, one year into the coronavirus pandemic. A year ago, the economy was heading into the recession, while today there is a sense of emerging from it. Based on properties already closed or under contract in early Q2, we anticipate that the coming quarters will see both buyers and sellers showing renewed interest in making deals.

OFFICE LEASING

Santa Barbara

Following the successful lease of the former Saks building to Amazon, downtown Santa Barbara is seeing new examples of retail space being repositioned as office. Pacific Retail—which owns most of Paseo Nuevo—is marketing the former Macy’s building at 701 State St as office space for large tenants over 20,000 square feet. Efforts to lease the building, especially the upper two floors, to retail tenants have not borne fruit, so they are pivoting to office. In another retail-to-office conversion, Silver Air inked a 10-year lease for the 5,740 sf former Enterprise Fish restaurant building at 225 State St.

Santa Barbara’s vacancy rate increased to an unprecedented 9.5% with the addition of 701 State St to the office market. The number of spaces is also at a record high at 108 availabilities. So why convert retail space to office, when office vacancy is already at a historic high? The simple answer is that downtown retail space has

proven harder to lease than office space. In addition, there is a wide consensus that the State Street corridor has too much retail space given trends in consumer behavior, whereas the saturation point for office space in the central business district is open to debate. Also unclear is the long-term impact of widespread remote working during the pandemic on office use, and therefore how demand for downtown office space will recover as the public health situation continues to improve.

On the plus side, there are indications that Santa Barbara office leasing is gaining momentum. The Q1 transaction count of 28 represents the highest quarterly deal flow since 2019. Gross absorption was also relatively robust at 82,000 sf, essentially even with the prior 5-year average on an annualized basis. Much of the transaction volume was professional office space in downtown Santa Barbara, such as NovaLaw’s lease of 4,376 sf at 200 E Carrillo St, and Thyne Taylor Fox Howard’s lease of 2,831 sf at 205 E Carrillo St. There were also some notable renewals: Impact Tech secured 11,534 sf at 223 E De La Guerra St; CrossnoKaye expanded to two floors in the Granada Tower; and Anticouni & Associates renewed 3,111 sf at 201 N Calle Cesar Chavez.

Goleta

Goleta office leasing has been in a lower gear for the past four quarters with volume trending about 40% below pre-pandemic levels. The vacancy rate of 6.0% is about one percent higher than a year ago, but still near the low end of the recent historical range. The two largest vacancies are 7414 Hollister Ave, vacated by LogMeIn, and 326 Bollay Dr, vacated by Inogen following their move to the new building at 301 Coromar Dr in Cabrillo Business Park. The latter is Goleta’s first delivery of a new office building in nearly 10 years.

There weren’t a lot of transactions in Q1, but some of them were worth noting. Asylum Research signed a long-term lease on the 38,401 sf at 7416 Hollister Ave, part of the former LogMeIn campus purchased by Majestic Asset Management in 2020. Asylum will move from 6300 Hollister Ave, where it has been for about 17 years. Advanced Scientific leased 11,579 sf at 125 Cremona Dr, the former Medtronic building which was also recently



7416 Hollister Ave, a 38,410 sf creative office building once occupied by Citrix and LogMeIn will soon be home to Asylum Research.

purchased by Majestic. Biond Photonics leased 8,975 sf at 27 Castilian Dr; the building is fully leased following Toyon Research's lease of the balance of the building in 2020.

Asking rates have held steady at a relatively high average of \$2.10 per sf gross, and achieved rents have not softened during the pandemic. The healthy pricing fundamentals stem from strong demand, ongoing improvement of spaces by "value-add" owners, and the name recognition of companies like Google and Microsoft burnishing Goleta's reputation.

Carpinteria

Carpinteria's office market was very sedate in Q1, with the only lease of note being Somera Capital's signing of 3,100 sf at 1145 Eugenia Pl. Most of the availabilities are class B or class C space, and demand has been sparse.

RETAIL LEASING

The pandemic has, not surprisingly, contributed to an expansion of Santa Barbara's retail inventory, which stands at a historic high of 71 spaces available. However, two years ago there were 70 spaces available, so the market isn't in uncharted territory.

Santa Barbara's 4.6% vacancy rate is also a new high mark, exacerbated by the vacant 149,000 sf Sears building at La Cumbre Plaza now on the market for lease. The building is offered on a short-term basis, preserving the owner's flexibility to sell to a developer, and there has been growing speculation about the prospect and feasibility of transforming the property into a mixed-use or other residential concept. The rest of the mall continues to contend with empty space totaling approximately 29,000 sf.

The downtown State Street corridor has seen a modest recovery of vacancy since the peak two quarters ago. The storefront vacancy rate on the 400 to 1400 blocks is 13.9%, down from 18.0% six months ago. While any improvement is welcome, there are still an alarming 27 vacancies in the five-block stretch from 600 to 1000 State St. Demand from national retailers for downtown space is virtually nonexistent, and all of the recent leases were signed by local or

regional concerns. In Q1, Caje Coffee leased the former Coffee Bean space at 811 State St, which will be their fourth location on the South Coast and third in downtown Santa Barbara. In the Funk Zone, Mollusk Surf Shop renewed its space at 205 Santa Barbara St. Permitting is reportedly in progress for a climbing gym in the former Staples building at 410 State St, which would advance the evolution of State Street as a place to do things rather than buy things.

There were four retail leases in Goleta in Q1, mainly in the daily needs centers. For example, Sleep Number leased 2,334 sf in Hollister Village, while Jersey Mike's leased 2,036 sf in Fairview Shopping Center. Old Town will have a new craft beer and wine taproom called Centennial Beer Hall in the former Mercury Lounge space at 5871 Hollister Ave. Storke Plaza next to Target is being renovated and rebranded as The Grange. While Goleta's vacancy rate of 2.7% is relatively high, there is a growing supply of tenants looking for space in Goleta, and transaction volume is likely to strengthen as the year progresses.

INDUSTRIAL LEASING

Santa Barbara's industrial vacancy has leveled off at 1.5%, which is about a 50% expansion compared to pre-pandemic levels. The relatively elevated rate is due to two large vacancies: 25,050 sf at 436 E Gutierrez St and 12,500 sf at 411 E Montecito St, which have both been available for about eight months.



UCSB leased 15,065 sf at 1021 Anacapa St in downtown Santa Barbara on a 15-year term.

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There were three Santa Barbara industrial leases in Q1. Cutler's Artisan Spirits leased the former Telegraph Brewing space at 10,600 sf at 418 N Salsipuedes St. Ocean Fathoms will be operating its underwater-wine-aging business out of 3,778 sf at 125 S Quarantina St. In addition the renewal of their retail space mentioned above, Mollusk Surf Shop



Cutler's Artisan Spirits leased 418 N Salsipuedes St in Santa Barbara.

expanded into 2,738 sf of adjacent industrial space at 208 Gray Ave in the Funk Zone. Asking rates for industrial space in the Funk Zone is getting up around \$3.00 gross per sf and higher, which is comparable to asking rates for retail storefronts on State Street across from the Apple Store.

For Goleta industrial, Q1 generated just three small leases totaling about 9,000 sf. Both asking and achieved rates have held steady during the pandemic. Goleta's vacancy rate has decreased since a year ago but is still relatively high at 5.4%, owing to 102,000 sf available at 30 S La Patera Ln.

Carpinteria's industrial leasing has been in a prolonged trough with only nine transactions completed during the past eight quarters. Currently, more than half of the available space is for sublease, including two spaces totaling 38,000 sf offered by Procore. There were two transactions in Q1, the larger of which was a renewal of 8,200 sf at 6383 Rose Ln by Earth Science Naturals.

LEASING MARKET DATA

Market	Vacancy Rate		Transactions		Gross Absorption		Achieved Rent	
OFFICE								
Santa Barbara	9.54%	+14%	27	+33%	80,720	+6%	\$3.07	+6%
Goleta	5.99%	-8%	6	-23%	67,678	+0%	\$2.11	+8%
Carpinteria	7.45%	-23%	1	+33%	3,100	+63%	\$2.70	+41%
RETAIL								
Santa Barbara	4.58%	+21%	8	-14%	8,420	-67%	\$4.35	+37%
Goleta	2.67%	+6%	4	+100%	7,491	-41%	\$3.39	+55%
Carpinteria	6.65%	-17%	2	+167%	3,041	-64%	\$2.14	-13%
INDUSTRIAL								
Santa Barbara	1.52%	+2%	3	-37%	17,116	+4%	\$2.05	-3%
Goleta	5.42%	-7%	3	-60%	8,965	-83%	\$1.72	+10%
Carpinteria	5.31%	+23%	2	+60%	12,550	+84%	\$1.22	+3%

Change percentages are compared to 2020 values, annualized where appropriate.

SOLD — Representing the seller
165,462 sf office on 10.8 acres in Goleta



SOLD — Representing all parties
22-unit apartment in Santa Barbara



SOLD — Representing the seller
121,230 sf office on 9.3 acres in Carpinteria



SOLD — Representing the buyer
145,211sf office/ind on 14.6 acres in Goleta

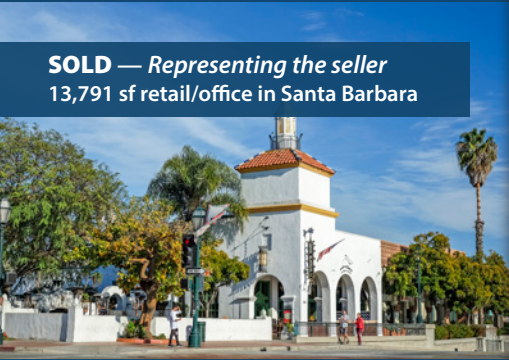


In the past 12 months,
Hayes Commercial Group
has completed:

38 SALES valued at
\$261 MILLION

202 LEASES valued at
\$75 MILLION

SOLD — Representing the seller
13,791 sf retail/office in Santa Barbara



SOLD — Representing all parties
57,937 sf office on 2.9 acres in Goleta



SOLD — Representing the seller
44,800 sf industrial on 4.1 acres in Goleta



SOLD — Representing all parties
66,484 sf office/R&D in Goleta



SOLD — Representing the seller
11-unit apartment in Santa Barbara



SOLD — Representing the buyer
41,000 sf office in downtown Santa Barbara



We are grateful for the opportunity to help you achieve (and exceed) your
real estate goals. Please don't hesitate to call. We are here for you!



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