



HIGHLIGHTS

- Heavy commercial sales activity produced the highest volume on record for a first quarter, a continuation of unprecedented sales in 2021.
- The inventory of property for sale is at a five-year low; however, demand remains high and off-market sales are prevalent.
- Santa Barbara's office market is still near peak supply, including an overextended inventory of large spaces.
- Goleta's office vacancy is near the historical low, but most of the transactions to date were renewals, and much of the inventory is stagnant.
- State Street's retail vacancy seems to be stuck in double digits, while the Funk Zone and Coast Village Road have very low availability.

with historical averages, and Carpinteria saw just one sale of \$1.2 million.

Among Goleta's sales, two off-market transactions were especially notable in terms of size and price. In January, the 72,000 SF class A office building at 6500 Hollister Ave was purchased by an investor for \$21 million. More recently, the six-building industrial/R&D campus on 11.9 acres at 315-346 Bollay Dr & 320-340 Storke Rd was purchased by Majestic Asset Management for \$50.6 million. By our count, it's the fourth highest price ever recorded for a commercial (non-hotel) property on the South Coast. This sale affirms Majestic's role as the most prominent value-add management firm on the South Coast, having completed five major acquisitions in as many years, totaling 750,000 SF.

Hospitality property sales continued apace in Q1. The 158-key Kimpton Goodland Hotel at 5650 Calle Real in Goleta traded hands for \$33 million. The buyer is reportedly a New York-based team specializing in "distressed" hospitality assets, and the price was well below what the seller had paid for the property in 2015. There were also two notable hotel sales in Santa Barbara: local developer Ed St. George purchased the 53-key Franciscan Inn at 109

COMMERCIAL SALES – Full steam ahead!

The momentum that produced record sales volume in 2021 carried into the new year, as Q1 generated 29 South Coast sales totaling \$151 million (excluding hotels), both record values for a first quarter. On top of that, hotel sales topped \$64 million. This presents a stark contrast to the previous two years, which both started slowly with relatively constricted deal flow in the first quarter.

In 2021, most of the surplus volume was in sales of Santa Barbara property; however, during Q1 the action shifted to Goleta where 10 sales and \$95 million of non-hotel volume traded, nearly triple the average quarterly production. By contrast, sales activity in Santa Barbara was level



Lockheed Martin has been a longtime tenant at 346 Bollay Dr at the 195,000 SF industrial/flex campus in Goleta, sold for \$50.6 million.

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Bath St for \$21 million; and the Quality Inn at 3055 De La Vina St was purchased by a local investor for \$9.7 million at the close of the quarter.

In Santa Barbara, a bizarre sequence led to the former Girls Inc property at 531 E Ortega St changing ownership twice within a matter of days. The 1.5-acre property was purchased by a local developer planning to build multi-family housing. However, the City reportedly wasn't receptive to the scale of the project, and five days after taking ownership the developer sold the property to Providence School for its own use. In another owner-user purchase, a dental practice purchased the 8,416 SF retail/office building at 331 N Milpas St in order to occupy part of the building and lease the remainder. Despite these examples of owner-user sales, three quarters of the buyers in Santa Barbara were by investors. Most notably, the 10,600 SF office building at 118 E Carrillo St was purchased by a 1031 Exchange investor for \$7.5 million in an off-market transaction. For the South Coast as a whole, owner-users completed 31% of transactions, which is a decrease from the historical trend.

With just 43 properties on the market for sale, inventory is at its lowest level in five years. However, due to strong demand, 55% of Q1 sales were off-market, and many properties are going under contract either before they make it to market or within a few weeks of doing so. The Fed's interest rate increases haven't dampened demand, so far. A relatively large proportion of buyers on the South Coast don't require financing because they can pay cash or are funded by a 1031 Exchange, so our market is less impacted than most by rising interest rates. At the same time, the root cause of rising interest rates—inflation—may also be driving demand among investors, as real estate is widely heralded as a hedge against inflation. For all these reasons, in the coming quarters we are likely to see sustained demand and sales volume despite relatively low inventory.

OFFICE LEASING

Santa Barbara's office market continues to grapple with surplus inventory. There are 90 spaces available, and vacancy rate has been above 9% for five consecutive quarters. The biggest lease in Q1 was UCLA Health's

signing of the entire 21,900 SF building at 111 E Victoria St for a 10-year term. Also of note, Mercer Advisors leased the 6,200 SF top floor of 222 E Carrillo St, and 5,000 SF at 28 W Figueroa St was leased by Bungalo805, the forthcoming lounge/club for kids and their parents.

Marketing for the office conversion of the former Nordstrom building at 651 Paseo Nuevo is expected to launch in Q2. As with the Ortega Building at the other end of Paseo Nuevo, the offering will consist of newly remodeled floor plates for large tenants. There have reportedly been multiple parties interested in the Ortega Building since marketing commenced a year ago, but no deals have been signed to date. Given current sparse demand in the market, finding tenants for these buildings is likely to take considerable time.

Taking a closer look at Santa Barbara's elevated vacancy, we see that larger office spaces represent a disproportionate share of the growth in inventory during the current cycle. Seven years ago, Santa Barbara's office market reached a cyclical low of 45 available spaces. Since then the number of available spaces has doubled, while the number of spaces larger than 5,000 SF has tripled to 31 currently available. For reference, 5,000 SF can accommodate roughly 30 office workers. Given average leasing volume over the past five years, Santa Barbara is carrying almost three years' worth of inventory in this 5,000-plus SF range. By contrast, the available spaces smaller than 5,000 square feet represent less than one year's worth of inventory. In other words, conditions do not seem to



UCLA Health leased 111 E Victoria St, a 21,900 SF building in downtown Santa Barbara.

favor bringing new large spaces to the market. On the flip side, tenants seeking a larger space should have several options to choose from.

Goleta's office vacancy continues to trace the opposite trajectory compared to Santa Barbara. The rate is below 5% for the first time since before the pandemic and is near the historical low. Demand is relatively healthy but appears to be fickle, and aside from renewals, deal flow was very limited in Q1. UCSB subleased 10,800 SF at 420 S Fairview Ave, which is about half of the space that Sientra relinquished for sublease there; the other half is still on the market. Other than that, the transactions were dominated by renewals, including Raytheon's securing of 15,000 SF at 115 Robin Hill Rd and Reaction 35's renewal of 10,250 SF at 861 Ward Dr. There are a few small spaces newly on the market, but the spaces above 5,000 SF have been available for 487 days on average, most of which have older finishes or class B features contributing to their lingering on the market. Newly remodeled spaces are leasing more readily.

In Carpinteria, there were no office transactions signed in Q1. The vacancy rate popped into double digits with the emergence of two large availabilities. First, Procore offered for sublease the second floor of 6267 Carpinteria Ave—25,000 SF of creative office on the bluff. Second, three spaces totaling 19,398 SF are available at 1013-1017 Mark Ave, much of which is office conversion of former warehouse space at a bargain rate. After successfully building and leasing four new flex buildings in Goleta, RAF Pacifica Group is proceeding with plans to construct a new 80,000 SF office building at 6380 Via Real in Carpinteria for delivery in late 2023. Given current market conditions, it may prove that new office space in Carpinteria is a bit harder to lease than new flex space in Goleta, but time will tell.

RETAIL LEASING

Santa Barbara's largest retail lease to date occurred on Upper State Street, where the lower level of the former Sears building at 3845 State St was leased by Mattress Mike's Furniture Gallery. Approximately 20% of this 72,750 SF space has been subleased to Moving Miss Daisy, which reportedly is planning consignment, antiques and perhaps more. The 76,300 SF upper floor is still for lease.

Downtown State Street's vacancy remains elevated, with 14.7% of storefronts on the 400 to 1300 blocks available and/or vacant. This "storefront vacancy" has been in double digits for four years, which has to be accepted now as the new normal. Returning to the 6-8% vacancy range would require a number of spaces to be repurposed for non-retail use and/or a substantial change in consumer behavior in the downtown corridor, neither of which are evident in the near horizon but could be brought about over time. In addition to the sheer number of storefronts, it bears noting that many of the vacancies are quite large spaces. The four largest available spaces on the State Street corridor, the former Macy's (ground floor), Forever 21, Staples, and Rite Aid combined represent approximately 100,000 SF of vacancy.

Two State Street leases were signed in Q1, both restaurants: L'Antica Pizzeria da Michele leased the former Embermill space at 1031 State St, and Beans BBQ is already up and grilling in the former Saigon space at 1230-A State St. Paseo Nuevo has seen an uptick in activity, adding four tenants recently, including City Hats, clothing stores Cindy 'n Claire and Pink Brownie, and Pure Vida Coffee. With these leases, Pacific Retail, which owns and manages most of the center, is reporting 6.4% vacancy (not including the former Macy's and Nordstrom buildings). In addition, SitalineSB.com reported that a CycleBar spinning gym franchise appears to be coming to Paseo Nuevo this fall.

Meanwhile, Coast Village Road has been bustling with diners and shoppers as if the pandemic never happened.



Los Angeles-based L'Antica Pizzeria da Michele will fire up the former Embermill space at 1031 State St.

There are only three available retail spaces facing Coast Village Road, which are listed at an average rate of \$7.50 gross per SF (compared to \$4.25 gross on average for the State Street corridor). The largest of the available spaces is the former Cava restaurant at 1212 Coast Village Rd, which attracted offers from multiple tenants soon after being listed and is expected to lease in Q2. Rumor has it that the head chef behind the Michelin-star rated Sushi Bar at the Montecito Inn will be launching his own restaurant in the Funk Zone.

In Goleta, Q1 brought a flurry of five small leases totaling 6,500 SF at the Plaza Shopping Center just west of Costco. This followed five transactions at that center in 2021, including the 21,350 SF anchor space leased by Planet Fitness. In Isla Vista, the pandemic's disruption of student life proved especially hard on retail tenants. There are six spaces totaling 8,000 SF available there, more than double the pre-pandemic norm. Compared to Isla Vista, the rest of the Goleta Valley has followed the opposite trend with available space contracting by 20% since the beginning of 2020. The three neighborhood centers in the eastern area of the city—Magnolia Center, Calle Real Center, and Fairview Center—all have some vacant spaces, but overall, inventory is tight in Goleta, as suggested by the 1.9% vacancy rate.

INDUSTRIAL LEASING

Santa Barbara has seen several industrial spaces come available since year-end. Three newish buildings totaling 9,300 SF at 35 N Calle Cesar Chavez came back on the market, previously leased by Andros Floor Design. A mix of sublease and direct lease space totaling 8,500 SF became available at The Platform at 126 E Haley St. And if you aren't looking to spend \$3.00-plus per SF on either of those properties, a less pricey option is the 7,140 SF clear-span building at 726 Cacique St that just hit the market. Meanwhile, Q1 produced only two transactions, including a 6,000 SF lease by Golden Gate Communications at 427 Olive St. The net result was a slight expansion of inventory, but the vacancy rate is still below 1%.

One of Goleta's largest industrial leases ever was signed at 6759-6789 Navigator Way, a deal securing 71,300 SF

across three buildings in RAF Pacifica's new development in Cabrillo Business Park. The entire 120,000 SF campus leased before the buildings were complete, which indicates the strength of demand for new construction, especially in the industrial market. In another significant signing, Pacific Design Technology renewed 38,000 SF at 6300 Lindmar Dr. Looking at supply, two spaces totaling 77,000 SF have come to market in the past six months at 26 Castilian Dr and 147-149 Castilian Dr. Meanwhile, the 42,600 SF former Inogen space at 326 Bolly Dr is back on the market under new ownership, being the one vacant building in the 195,000 SF campus just purchased by Majestic Asset Management as noted above in the sales summary. The vacancy rate has crept up to 4.2%, but based on leasing activity early in Q2, it is projected to return to around 3% by midyear.

In Carpinteria, there are just two spaces available, the larger being 24,030 SF for sublease from Procore at 6384 Via Real. There were three transactions in Q1, which is above-average volume in Carpinteria. Two leases totaling 14,500 SF were signed at 1025 Cindy Ln, while 8,100 SF at 1010 Cindy Ln was signed by Twenty Four 7 Moving. After dipping a bit during the past two years, both asking and achieved rates have rebounded to pre-pandemic levels. The lean, sub-2% vacancy may be short-lived, as space coming to market in Q2 will likely bring the vacancy rate above 4% soon.



RAF Pacifica's newly constructed flex buildings in Cabrillo Business Park in Goleta are fully leased after a 71,300 SF deal in Q1.

LEASING MARKET DATA

Market	Vacancy Rate		Transactions		Gross Absorption (SF)		Achieved Rent (PSF GR)	
OFFICE								
Santa Barbara	9.73%	+4%	21	-21%	72,069	-16%	\$3.28	+10%
Goleta	4.89%	-7%	9	+16%	53,149	-17%	\$2.11	+1%
Carpinteria	3.47%	+204%	0	-100%	0	-100%	-	-
RETAIL								
Santa Barbara	4.22%	-12%	6	-49%	99,127	+323%	\$3.17	-16%
Goleta	1.92%	-0%	6	+20%	8,492	-56%	\$2.93	-2%
Carpinteria	6.70%	+7%	1	+100%	1,994	+162%	\$4.01	+87%
INDUSTRIAL								
Santa Barbara	0.98%	+51%	2	-53%	9,207	-59%	\$2.25	+24%
Goleta	4.20%	+51%	4	-36%	115,589	+78%	\$1.88	+15%
Carpinteria	3.65%	-46%	3	+71%	22,600	+15%	\$1.29	+10%

Change percentages are compared to 2021 values, annualized where appropriate.

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