

COMMERCIAL SALES

	YTD	vs 2015*	vs 5-yr Avg*
Sales	76	+4%	+16%
Volume	\$271 M	-25%	-14%

* Annualized

The dynamic, high-volume sales market exhibited during the past three years has continued through three quarters of 2016, placing the South Coast on pace to exceed 100 sales for the year, a level only reached once historically, in 2014. Excluding hotels, dollar volume is up 21% compared to the prior 5-year average.

Sales transactions in Santa Barbara have been far above the historical norm with 53 sales completed through Q3, the highest count on record at this point in the year. There were 22 sales in Q3 alone, including the 18,281 sf office building at 27 W Anapamu St (\$6.95M).

In contrast to Santa Barbara, sales have slowed in Goleta with only 15 sales to date, compared to 37 at the same point in 2015, although it should be noted that 2015 was a record year for sales in Goleta. Of note in Q3, the 14.5-acre parcel at 6100 Hollister Ave was purchased from the City of Santa Barbara by Direct Relief International for \$8.7M.

The most active sector this year has been retail property with 24 South Coast sales totaling \$112 million to date. These sales included two grocery-anchored centers sold in Q1: Magnolia Center at 5198 Hollister Ave (\$29.4M) and Casitas Plaza at 1000 Casitas Pass Rd (\$16.9M). Santa Barbara saw a number of retail sales during Q3, including 11 Anacapa St (Funk Zone retail/industrial); 8 W Victoria St (leased to Sotheby's Realty); and 601 State St (leased to Aaron Bros).

One sector that has been underrepresented so far this year has been hotel property, which is on pace for the lowest sales year since 2010. There have been just two hotel sales

to date totaling \$10.6 million, which is 89% below the prior 5-year average dollar volume.

The heavy volume of sales transactions has continued unabated despite supply hovering near the 10-year low; there are 48 properties currently on the market. Off-market transactions have been a major contributor to this peculiar dynamic during the past four years and have represented 35% of the sales to date in Santa Barbara. Strong demand – buoyed by low interest rates and prevalence of 1031 Exchange buyers – is expected to keep sales activity at a high level in the near term.

OFFICE LEASING

	Santa Barbara	Goleta	Carpinteria	Total
Vacancy:	3.7%	11.5%	1.7%	7.0%
Available Space:	-16%	+11%	-41%	+2%
Asking Rates:	+3%	+5%	+100%	+2%
Achieved Rates:	+1%	+8%	+21%	+5%
Gross Absorption:	-16%	-4%	-32%	-14%

Change percentages are since 1/1/2016. Change percentage totals are weighted by sq ft.

SANTA BARBARA

- Santa Barbara office availability has contracted by 16% since the beginning of the year to a present vacancy rate of 3.66%, the lowest level since 2007.
- Lower vacancy has led to increased pricing; both asking and achieved rates have increased 15% since the beginning of 2014.
- Despite a robust number of transactions, gross absorption is tracking about 16% below the prior 5-year average. Only 12 of 81 leases to date were for spaces larger than 5,000 sf.
- 30% of the total space leased took the form of renewals. The largest of those was 10,507 sf secured by Nasif, Hicks, Harris & Co. at 104 W Anapamu St.

- Q3 leases of note: ImpactHub leased 10,044 sf at 10 E Yanonali St, and the General Services Administration leased the 7,650 sf space vacated by The Independent at 122 W Figueroa St.

GOLETA

- Goleta’s vacancy rate has crept up to 11.5%, its highest point since 2010. This was not unexpected; since the beginning of the year large spaces totaling 150k sf have come to market that are being vacated by Mentor, KSI and NST.
- 40% of leased space has been renewals, including three renewals totaling 36,611 sf at 5383 Hollister Ave.
- Despite relatively high vacancy, achieved lease rates are up 13% compared to the prior 5-year average.
- Gross absorption is similar to 2015 on an annualized basis, but dollar consideration is on track to double last year’s total. This is due to higher lease rates and longer average term.
- Q3 leases of note: InTouch Health subleased 28,025 sf at 7402 Hollister Ave, and AT&T renewed 20,054 sf at 5383 Hollister Ave.

CARPINTERIA

- Following a year of record absorption in 2015, Carpinteria office leasing to date has returned to a more typical level this year, tracking 12% above the prior 5-year average.
- There are only two small office spaces available in Carpinteria and Summerland. The vacancy rate is 1.1%
- Procore has dominated the leasing activity of late, representing 70% of office area leased in Carpinteria YTD. Since August of 2013, the construction management software company has signed eight leases and currently holds 145,000 sf of office and industrial space in Carpinteria.
- Q3 saw little activity with only two transactions: Organic Certifiers renewed 4,900 sf at 1033 Cindy Ln, and

Continental Automotive Systems signed a 5,393 sf lease expansion at 6307 Carpinteria Ave.

- Montana Avenue Capital, owners of 6303-6309 Carpinteria Ave, recently purchased the 8.63 acre site at 6380 Via Real in Carpinteria with plans to develop a 79,000 sf office campus over the next 18 months. That project would expand the Carpinteria office market by about 12%.

RETAIL LEASING

	Santa Barbara	Goleta	Carpinteria	Total
Vacancy:	1.9%	1.8%	2.8%	1.9%
Available Space:	- 7%	+ 9%	- 35%	+ 2%
Asking Rates:	+ 4%	0%	+ 6%	+ 3%
Achieved Rates:	+ 10%	+ 26%	na	+ 16%
Gross Absorption:	- 23%	- 65%	na	- 34%

Change percentages are since 1/1/2016. Change percentage totals are weighted by sq ft.

The South Coast retail leasing market has been steady, marked by low vacancy (1.9%) and modest deal volume. Compared to the prior 5-year average, the number of retail leases is down 20%.

- The vacancy picture on the core blocks of State Street in Santa Barbara has stabilized somewhat in recent months. There are 10 spaces available on the 600 to 1000 blocks, down from 15 at midyear.
- Three leases have been signed this year on the beleaguered 900 block of State Street: Plum Goods leased 2,175 sf at 911 State St; Heavenly Couture leased 923 State St (moving from 927); and Brandy Melville (a national clothing retailer) leased 939 State St. There are still four spaces available.
- The 10,008 sf grocery space at 29 N Milpas St – to be vacated by Trader Joe’s as it moves to 222 N Milpas St – is the largest retail space for lease in Santa Barbara.
- Leasing in Goleta has been slow so far this year, especially compared to 2015, which was a record year. There were just two leases signed in the last six months. Vacancy remains very low at 1.8%.

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- There are several notable spaces available in the Funk Zone area: The new owner of 11 Anacapa St is positioning it for lease as a remodeled 10,000 sf project perfect for – you guessed it – wine or beer. The 8,534 sf Sit-n-Sleep space next to REI is available. The lighthouse property at 15 E Cabrillo Blvd is being rebuilt as a 6,916 sf, two-story restaurant.

- Robust leasing activity has proceeded despite very limited inventory. Currently there are only 10 spaces for lease on the South Coast.
- Santa Barbara has record low availability with only one space on the market: 4,280 sf at 104 E Haley St.
- Goleta’s 22 leases is the highest Q3 YTD count on record. 32% of the square footage leased was renewals, including Transphorm’s exercise of 16,000 sf at 75 Castilian Dr.
- Procure’s 28,800 sf lease at 6385 Cindy Ln in Carpinteria remains the largest lease to date, while the largest Q3 transaction was InTouch Health’s lease of 24,524 sf at 7406 Hollister Ave in Goleta.
- The largest available space is 34,400 sf for sublease at 6395 Cindy Ln in Carpinteria.
- Looking ahead, the South Coast’s 1.0% vacancy rate is the lowest we have on record. As the past three years have shown, the market is carrying sufficient demand to produce high leasing volume even with vacancy below 2%, and we expect these conditions to persist.

INDUSTRIAL LEASING

	Santa Barbara	Goleta	Carpinteria	Total
Vacancy:	0.1%	1.0%	4.5%	1.0%
Available Space:	-69%	-68%	+106%	+2%
Asking Rates:	-14%	+23%	+24%	-1%
Achieved Rates:	-2%	+5%	+6%	+6%
Gross Absorption:	+133%	+90%	+10%	+72%

Change percentages are since 1/1/2016. Change percentage totals are weighted by sq ft.

Led by a surprising number of large leases in Goleta, the industrial leasing market is on track for another high-volume year on the South Coast. Gross absorption is 9% above the prior 5-year average.



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