

COMMERCIAL SALES

	YTD 2017	vs 2016*	vs 5-yr Avg*
Sales Transactions	68	- 6%	- 3%
Volume (excl. hotels)	\$277 M	+ 17%	+18%

* Annualized

Propelled by office and land property sales, South Coast commercial dollar volume through three quarters is on pace for a record year. If hotel sales are added – including the sale of the Bacara Resort – 2017 is already a historic year with a quarter left to go.

In a deal that received national attention at the end of September, the Bacara Resort & Spa has been rebranded as a Ritz-Carlton and purchased by two REITs based in New York. The price was not disclosed but is estimated at \$245 million. The South Coast is now the second-smallest metro area in the U.S. (behind Vail, Colorado) to have both a Four Seasons and a Ritz-Carlton.

Following a relatively slow 2016, office building property sales have rebounded to date this year, as dollar volume exceeds the prior 5-year average by nearly 50%. In Santa Barbara, the El Centro office building at 19-31 E Canon Perdido St was purchased in Q3 by a local investor for \$8 million. There have been five office sales in Carpinteria to date, valued at \$33.5 million, compared to zero office sales in 2016. In Q3, Freudenberg Medical purchased 1005-1009 Cindy Ln for its own use, while a local investor purchased a building across the street, 1001 Mark Ave, for \$5 million.

Commercial land sales have also been above trend with year-to-date dollar volume more than double the prior 5-year average. Most notably, in Q3 an institutional investor bought 5.8 acres of land under Kmart at 6865 Hollister Ave for \$20 million. Also in Q3, MarBorg Industries bought four undeveloped parcels totaling 2.4 acres at 125 N Calle Cesar Chavez in downtown Santa Barbara for its own use.

On the other hand, sales of retail property have been lackluster with 16 transactions totaling \$54 million to date. Activity picked up in the third quarter, though. The Starbucks building at 800 State St – never before on the market – was purchased by a local investor for \$8.6 million. In Goleta, a local investor bought 5799 Hollister Ave in the heart of Old Town for \$4.9 million, now leased to AutoZone.

Industrial property sales are in an even deeper lull, due primarily to limited supply. During the past two years, the most industrial properties for sale at any give time has been seven. There have been just a handful of sales to date, and dollar volume is 40% below the prior 5-year average.

Looking ahead, the fundamentals for robust sales activity remain healthy heading toward the end of 2017. Aside from industrial property there is a reasonably steady inventory coming to market for sale. Some owners are looking to stay ahead of a potential economic downturn or rising interest rates, either of which could lower the value of their assets. On the other side, demand has held steady among both investors and owner-users, and off-market transactions represented 40% of sales to date.

OFFICE LEASING

	Santa Barbara	Goleta	Carpinteria	All
Vacancy:	5.3%	8.5%	8.5%	6.9%
Available Space:	+ 21%	- 28%	+262%	- 9%
Transactions:	- 5%	- 4%	- 73%	- 9%
Achieved Rents:	+ 2%	+ 0%	+ 30%	+ 1%
Gross Absorption:	+ 3%	+ 33%	- 95%	- 1%

Change percentages are since 1/1/2017.

After two historically slow quarters ending with Q1, office leasing bounced back during the last two quarters, though not uniformly across the South Coast. Goleta was the locus of most of the resurgent volume, while Santa Barbara held par and Carpinteria remained stagnant. Looking forward, ample tenant demand for small and medium spaces should

keep transaction volume healthy, while larger spaces are likely to take more time to fill.

SANTA BARBARA

- Santa Barbara’s office availability has expanded by 45% during the past year. The vacancy rate of 5.3% is the highest rate in 3½ years.
- Sonos will retain the new buildings totaling 18,792 sf at 530 Chapala St & 25 W Cota St that were offered for sublease. Instead, their 27,773 sf building at 419 State St has been listed for sublease. Sonos completed a creative office buildout there in 2014.
- Q3 leases of note: Invoca renewed 14,746 sf at 1025 Chapala St; Stifel, Nicolaus & Company leased the 6,675 sf Northern Trust building at 206 E Anapamu St; American Riviera Bank leased 4,000 sf at 30 E Figueroa St.

GOLETA

- Goleta office vacancy continued to contract and finished Q3 with a rate of 8.5%, the lowest level since 2008. Available space decreased 28% in the past six months.
- Goleta’s volume of square footage leased to date is 33% above 2017 on an annualized basis. Most of the activity took place in Q2 when Apeel Sciences subleased 105,257 sf at 71 S Los Carneros Rd.
- Achieved lease rates ramped up in 2016 but have remained flat since then. Rates are currently about 19% higher than the low point during the last recession.
- More than half of the available square footage is in three buildings: 70 Castilian Dr (formerly FLIR), 301 Mentor Dr (formerly Mentor), and 175 Cremona Dr (formerly Karl Storz Imaging).
- Q3 leases of note: TrackR leased the balance of 7410 Hollister Ave in Hollister Business Park and will occupy the whole 39,000 sf building; Hewlett Packard Enterprise renewed 12,000 sf at 6750 Navigator Way in Cabrillo Business Park.

CARPINTERIA

- Carpinteria’s vacancy rate has increased dramatically during the past six months to 8.5%. Much of the increase resulted from two 19,000+ sf spaces coming to market at 6398 Cindy Ln and 1001 Mark Ave.
- To date there have been just two small leases – one in Carpinteria and another in Summerland – both signed in Q3.

RETAIL LEASING

	Santa Barbara	Goleta	Carpinteria	All
Vacancy:	3.9%	2.4%	7.3%	3.6%
Available Space:	+112%	+3%	+408%	+85%
Transactions:	-29%	-29%	-50%	-31%
Achieved Rents:	-5%	-14%	-8%	-7%
Gross Absorption:	-50%	-33%	-52%	-48%

Change percentages are since 1/1/2017.

Retail leasing across the South Coast has been sluggish so far in 2017, contributing to a record high vacancy rate of 3.6%. Transactions are tracking 16% below the prior 5-year average. However, 2016 was a record year for transactions, and some of this year’s lull in activity could be normal market correction.

- There are 27 retail properties available on State Street from the waterfront to the Sola Street. On the bright side, leasing has gained momentum along this corridor, where there have been 19 transactions to date.
- Saks Off 5th confirmed that it will not renew at 1001 State St. This 43,802 sf building and the 141,000 sf former Macy’s at Paseo Nuevo combined represent 45% of the available square footage in Santa Barbara.
- There are 23,771 sf available in 8 spaces in the Funk Zone/ waterfront area, including 7,500 sf at 11 Anacapa St and three spaces remaining in the new Hotel Californian.
- Upper State Street has 8 vacancies totaling more than 50,000 sf, most of which is in La Cumbre Plaza.

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- Q3 leases of note: Chinese retailer Miniso leased 6,148 sf at 733 State St (American Apparel); Blue Bee leased 1,935 sf at 619 State St (Just Play Music); Renaud’s Bakery and Empty Bowl leased 1,022 sf and 1,460 sf respectively at 1187 Coast Village Rd; Johnson Family Dental leased 3,165 sf at 7050 Hollister Ave in Goleta.

heavy demand and deals in progress will almost certainly bring vacancy back down by the end of the year.

- Two leases securing 47,634 sf have been signed at 839-879 Ward Dr in Goleta, vacated by Channel Technologies. The remaining 64,885 sf represents 45% of the available industrial space in Goleta.

INDUSTRIAL LEASING

	Santa Barbara	Goleta	Carpinteria	All
Vacancy:	0.8%	3.3%	2.2%	2.0%
Available Space:	+ 95%	+ 59%	- 27%	+ 41%
Transactions:	- 8%	- 8%	- 7%	- 7%
Achieved Rents:	+ 6%	+ 16%	- 3%	+ 11%
Gross Absorption:	- 17%	- 15%	- 49%	- 26%

Change percentages are since 1/1/2017.

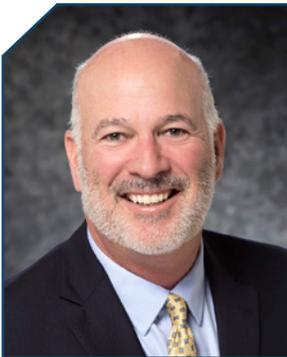
- In downtown Carpinteria, 20,000 sf of industrial/R&D space is available at 550 Linden Ave. This offering lifted the vacancy rate in Carpinteria from negligible to 2.2%.

- Our brokers report that demand is strong across a wide spectrum of use types, including construction trades, wineries, adventure tours, gyms, and even “gardening” equipment stores. They expect the current state of increased availability to be short-lived.

The South Coast’s industrial vacancy rate ended Q3 at 2.0%, the highest it’s been in four years. There are 19 spaces available, up from 10 spaces a year ago. However,

- Q3 leases of note: Sonatech leased 21,167 sf at 879 Ward Dr in Goleta; Supersprings International renewed 15,985 sf at 505 Maple St in Carpinteria.

Meet our newest team member...



Greg Moss
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Greg Moss recently returned to Santa Barbara from the San Francisco Bay Area, where he was Regional Managing Principal of northern California operations for Cushman & Wakefield / Cassidy Turley.

Greg is extremely well versed in all facets of commercial real estate, including acquisitions, dispositions, project leasing, and tenant representation. He has a strong understanding of clients’ business issues related to protecting and creating value.

“Greg brings a wealth of commercial real estate experience and business insight to the Hayes team.”

- Steve Hayes

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