



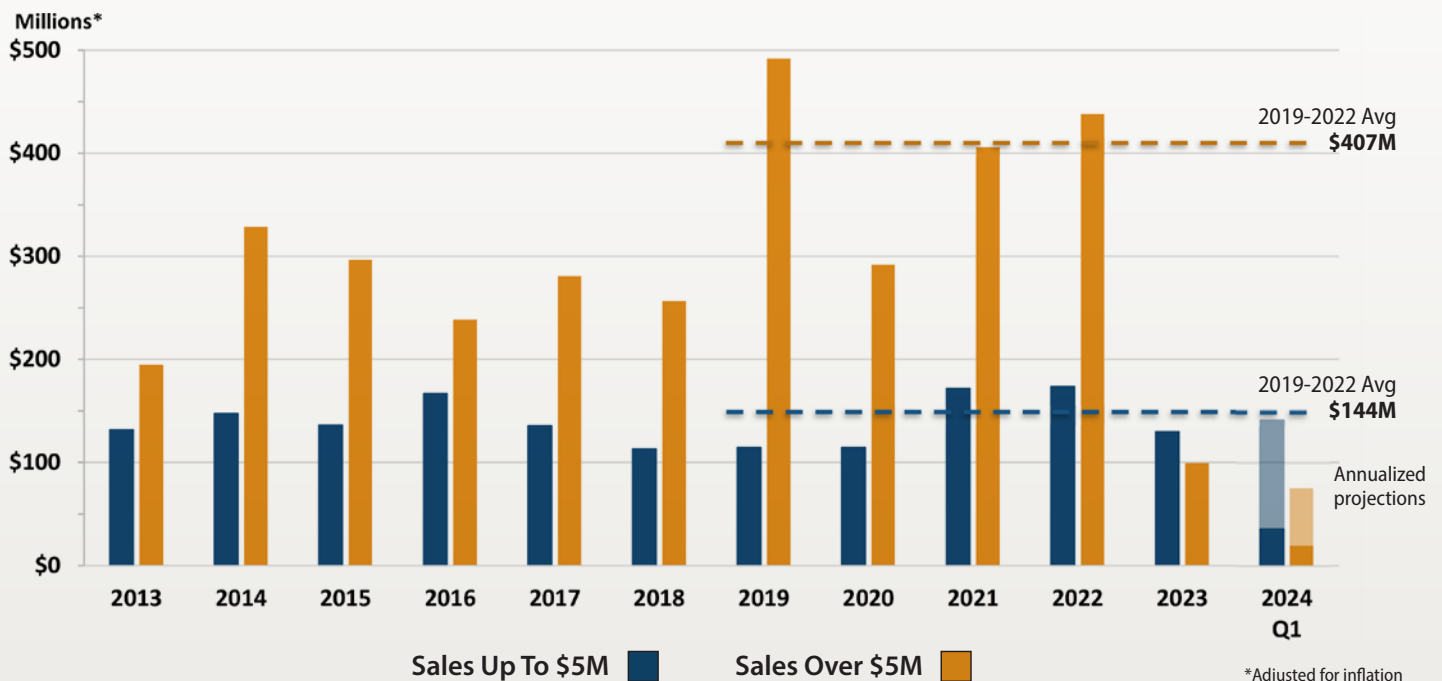
COMMERCIAL SALES - A "Bite-Sized" Market

Since the record-high commercial sales volume in 2022, the cooling effect of higher interest rates has induced five consecutive quarters of substantially reduced activity. Dollar volume in Q1 was about half the prior 5-year average, yet was on par with the relatively low level established in 2023. There were 20 transactions, a decrease of 16% from the 5-year trend.

The slump in sales continues to be focused on the higher price range, and there were just two sales above \$5 million during Q1. Lower priced properties are inherently easier to purchase with either cash or a relatively small loan, and Q1 sales below \$5 million were slightly above the historic average for both transactions and dollar volume.

- Q1 dollar volume (excluding hotels) was \$55 million, which matches the \$57 million average quarterly volume in 2023. By comparison, the quarterly average in 2022 was a record-high \$148 million.
- The Funk Zone is hot again, as more than half of the Q1 dollar volume was from property sold in that neighborhood.
- In an off-market, \$19 million transaction, the developer behind the Lark project purchased an entire city block in the Funk Zone that had been assembled over many years by Mesa Lane Partners. It includes approximately 75,000 SF of retail, industrial, and residential structures on two acres defined by Gray Avenue, Yanonali, Santa Barbara, and Mason Streets.

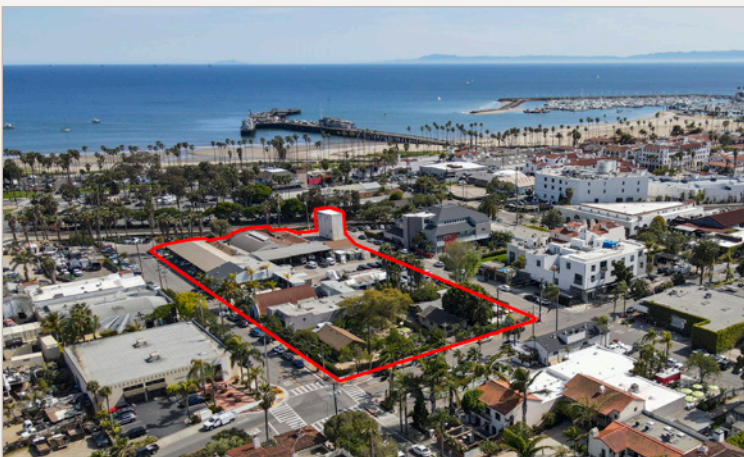
Dollar Value of Sales Below and Above \$5 Million (excluding Hotels)



The graph divides the sales volume for each year into two price ranges. Dollar volume for properties over \$5 million decreased dramatically in 2023 and remained low in Q1. By contrast, the volume for sales under \$5 million has remained much closer to the historical average, suggesting that higher-priced sales have been far more inhibited by higher interest rates.

- The Funk Zone saw three other retail property sales totaling \$10.7 million: 228 Santa Barbara St, 214-220 Anacapa St, and 216 E Yanonali St. The latter is the former Metropulos deli building.
- State Street's retail corridor saw two sales as well. 636 State was purchased by a local investor who brought clothing store Vuori in to lease the building. And 922 State (former Namaste storefront) was purchased by an owner-user who will open a retail store.
- All told, half of the commercial sales were retail properties, producing one of the most active retail quarters in recent years.
- The lone hospitality sale was the former Quality Inn at 3055 De La Vina St, acquired for \$9.4 million by the Santa Barbara Housing Authority.
- Aside from the two largest transactions (the Funk Zone block and the hotel), the remaining sales were all under \$5 million and averaged below \$2 million.
- There are currently 48 properties for sale, which represents a 37% drop in inventory since the beginning of 2023. Some potential sellers have evidently decided to wait on the sidelines for interest rates to come down.

To sum up, the sales market entered a phase of lower activity in 2023, which is ongoing and marked by the



The developer of the successful Lark project purchased a city block in the Funk Zone from Mesa Lane Partners for \$19 million.

following trends, as compared to the high-volume period from 2019 through 2022.

- Transactions: down about 25%
- Dollar volume: down about 50%
- Transactions over \$5 million: down about 60%
- Dollar volume of sales over \$5 million: down about 75%
- Inventory: down about 25%

Despite these sobering numbers, there is cause for optimism in the fact that sales activity in the lower price range has held steady. A similar pattern holds in multifamily sales, where sales of 2-4 unit properties have retained solid momentum, while 5-plus unit apartment transactions have become more rare. This suggests the decrease in sales is truly tied to the increase in interest rates, rather than a drop in latent demand for commercial real estate. However, given the Fed is not expected to lower rates for at least another six months, the current emphasis on more "bite-sized" sales that are not as dependent on financing is very likely to hold for the remainder of the year, if not longer.

OFFICE LEASING

South Coast office leasing volume lost momentum in Q1, especially compared to the very strong absorption seen throughout 2023. Gross absorption in Q1 was down more than 35% compared to the 5-year trend. The number of transactions was on par with recent years, but the average space size dropped below 3,500 SF, as many tenants are opting for a more compact footprint.

We continue to observe a "flight to quality," in which Class A spaces, and especially turn-key suites, are leasing while dated or less polished spaces lie fallow. Together with the smaller average space size, the flight to quality has resulted in higher rent per square foot, on average, than was typical five years ago. It is generally true that landlords who are able to thoroughly update a space before bringing it to market are more likely to lease the space sooner and at a higher rate than if they leave the space untouched. In today's market, though, the advantages of this strategy seem more pronounced. And while they're at it, dividing large suites into smaller ones often pays off too.

SANTA BARBARA OFFICE

- Excluding the large (and conceptual) office offerings in the former Macy's and Nordstrom buildings at Paseo Nuevo, Santa Barbara office vacancy has ranged from 6.0% to 8.2% during the past two years, and is currently near the high end of that range at 8.0%.
- Two of the Q1 leases were Goleta tenants looking to downsize, who ended up leasing in Santa Barbara where smaller spaces are easier to find. Snyder Law "rightsized" from 7,300 SF in Goleta to 4,400 SF at 3757 State St. In the same building, Ricardo Defense just leased 2,000 SF to replace its 7,000 SF footprint in Goleta.
- There were a few renewals of note: Fast Spring retained 5,300 SF at 801 Garden St, and City National Bank signed a long-term renewal of its 4,600 SF location at 1205 Coast Village Rd.
- Lottery app company JackPocket subleased 4,300 SF at 104 E Haley St in January, shortly before its acquisition by DraftKings was announced.
- The City of Santa Barbara leased 6,376 SF at 621 Chapala St for a daytime homelessness services facility.
- The 8,522 SF former Zoom space at 420 E Carrillo St is newly on the market for direct lease.
- Significant space in two buildings near Highway 154 came to market in Q1, namely 8,000 SF at 4183 State and 5,000 SF at 4213 State.

GOLETA OFFICE

- Goleta office vacancy has been on a seesaw in recent years. After reaching a record-low rate of 4.9% two years ago, it more than doubled to 10.7% in 12 months. Since then, available inventory decreased to 7.6% at the end of Q1.
- Seven of the ten Q1 transactions in Goleta were spaces in Majestic Asset Management properties, including renewals of 13,100 SF at 175 Cremona Dr by Resonant



Snyder Law and Ricardo Defense both leased offices at 3757 State St in Santa Barbara as they "rightsized" from larger spaces in Goleta.

- Wireless and 13,100 SF at 150 Castilian Dr by CACI. Also of note, Sovato Health leased 6,000 SF at 130 Castilian Dr.
- The largest new lease of Q1 was 8,100 SF at 5425 Hollister Ave secured by Sansum Diabetes Research.
- While vacancy has decreased, there are still 14 properties with more than 10,000 SF available, 12 of which have been on the market for more than a year, as tenants for large office spaces remain scarce.

CARPINTERIA OFFICE

- The most prominent office availability in Carpinteria continues to be 79,500 SF of Procore sublease space on the bluffs, which constitutes most of the 16.6% vacancy. These spaces, at 6307 and 6267 Carpinteria Ave, were relisted in Q1 after a 40% markdown in asking rent.
- There was only one transaction signed in Carpinteria during Q1, as the municipal fire district renewed 2,200 SF at 1140 Eugenia Pl.

RETAIL LEASING

Relatively active retail leasing resulted in an above-average 22 transactions on the South Coast. However, the leases tended to be small, averaging under 2,000 SF, and consequently gross absorption of space was down 20% compared to the 5-year average. Nevertheless, combined

South Coast vacancy ended the quarter below 3% for the first time since 2016.

As noted in the sales summary, real estate buzz in the Funk Zone has kicked into a higher gear, which promises to bring changes to its retail and restaurant landscape. Silvers Omakase sushi opened in February, expanding the idea of what is possible in the Funk Zone, as the Lark did over 10 years ago. The developer of the Lark project and most credited with the Funk Zone renaissance during the 2010s, just purchased a city block, which will presumably bring substantial space to market for lease as new tenants are invited to join the project.

Meanwhile, the Funk Zone currently has 7 retail spaces available totaling 23,000 SF, plus 5 commercial properties for sale representing another 35,000 SF of retail (or potential retail) space on the market. Despite all of the buzz, there was only one lease transaction in the Funk Zone during Q1, as Lama Dog signed a 4,000 SF renewal at 116 Santa Barbara St.

On Upper State, the former Instrumental Music building at 3328 State St, was leased by a smoke shop. Adjacent spaces totaling 5,200 SF at 23 S Hope Ave were leased by a gym and a dentist.

In Goleta, the 5,000 SF former Hollister Brewing space in Camino Real Marketplace was leased by Finney's Crafthouse, which plans to open near the end of the

year. Caje Coffee leased 2,300 SF at 5340 Hollister Ave in Patterson Center.

Toward the other end of the South Coast, the Big Yellow House building at 102 Pierpont Ave now features the 3,400 SF Arrediamo Santa Fe rug store, bolstering the growing roster of home décor businesses in Summerland.

STATE STREET

- State Street storefront vacancy has improved overall. On the 400-1300 blocks vacancy is 12.4%, the lowest rate in four years.
- More than half of the vacancies are on the 700-900 block, the geographic center of State Street where 23% of storefronts are available or vacant. On the other blocks of the corridor (400-600 and 1000-1300) vacancy is 8%.
- After decades on State Street, Wendy Foster is the latest retailer to pull up stakes. They will focus on their other locations, including Coast Village Road.
- Vuori clothing signed a long-term lease at 636 State St, the 4,300 SF corner building once occupied by Verizon. Vuori is moving from 733 State St, the 6,100 SF former Athleta space, which is available.
- The normally quiet 400 block saw three leases in Q1. 413 State was leased by the team behind Aperitivo; 428 State is now Venture Apparel Co; and State Street Smoke Shop has opened at 432 State. At the same time, the closure of the 99 Cents Only store has left a large vacancy on the block.
- The long-suffering 900 block is down to 6 vacancies, which is the lowest count since 2018. Namaste moved from 922 State across the street to 911 State, making way for the new owner of 922 State to open a new store. Cookie Plug opened at 918 State in February.

INDUSTRIAL LEASING

Despite healthy demand, industrial leasing activity was hindered by lack of inventory, and only nine transactions were inked on the South Coast in Q1. Gross absorption



Finney's Crafthouse will open its second South Coast location in Goleta's Camino Real Marketplace.



An 8,400 SF space at 895 Pine Ave in Goleta, recently vacated by Parker Clay, was leased by Pacific Acoustics North.

was 18% under than the 5-year average. Vacancy has been under 2% for the past two quarters.

- The most notable Q1 deal was Mammoth Moving's 5-year renewal of 42,700 SF at 5390 Overpass Rd in Goleta. They have been in the space since 2014 and just signed on for another 5 years.
- Also of note in Goleta, Pacific Acoustics North leased 8,400 SF at 495 Pine Ave, and Blue Laser Fusion secured 5,200 SF at 82 Aero Camino.
- Available space in Goleta has contracted by 48% over the past 24 months, and the current vacancy of 2.2% is the lowest rate in 7 years.
- Santa Barbara industrial vacancy was virtually unchanged and remains under 1%. The largest transaction was 6,800 SF at 1 N Calle Cesar Chavez subleased to Dramatic Choices.

LEASING DATA (COMPARED TO 2023)

Market	Vacancy Rate		Transactions		Gross Absorption (SF)		Achieved Rent (PSF GR)	
OFFICE								
Santa Barbara	10.0%	+0%	21	-17%	54,512	-42%	\$3.55	+6%
Goleta	7.6%	-4%	10	+21%	55,527	-57%	\$2.46	+10%
Carpinteria	16.6%	+114%	1	-43%	2,195	-71%	\$2.82	+25%
RETAIL								
Santa Barbara	3.1%	-2%	13	-9%	26,055	-24%	\$3.68	-7%
Goleta	2.7%	+16%	5	+11%	10,807	+34%	\$3.53	+9%
Carpinteria	4.6%	-49%	3	+33%	6,054	+90%	\$4.48	-4%
INDUSTRIAL								
Santa Barbara	0.9%	+8%	4	-33%	17,610	-61%	\$2.85	+47%
Goleta	2.2%	-10%	4	-24%	59,509	+16%	\$2.62	+50%
Carpinteria	4.0%	+6%	1	+100%	2,773	-66%	\$1.62	+44%

Change percentages are compared to 2023 values, annualized where appropriate.

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