

COMMERCIAL SALES: A Season of Investor Caution

Commercial sales activity was sluggish in Q1, continuing (and deepening) the low-volume trend of the past two years. There were only 11 transactions along the South Coast, which is less than half the quarterly average during the prior five years. The total dollar value was \$30 million, the lowest Q1 total since 2009 and 59% below the 5-year average.

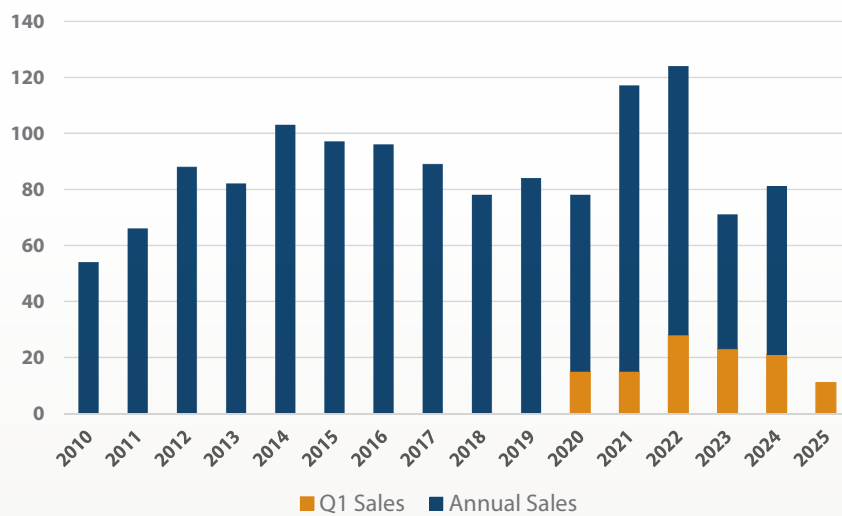
We should note that two local shopping centers—Magnolia Center and Casitas Plaza—transitioned ownership in a \$4 billion REIT acquisition. While these were unpriced transfers and excluded from sale totals, they underscore ongoing institutional interest in the area.

The lending environment continues to inhibit sales, as buyers confront higher interest rates, and sellers have generally resisted lowering their price expectations accordingly. In other markets, higher interest rates have induced leveraged owners to sell when their loans come due, but so far this pressure hasn't produced an increase in supply or "distressed" pricing locally.

Investor activity was more limited this quarter, with just two investment sales—a record low compared to the 5-year average of 12. Highlights included a \$4.2 million acquisition the 24,600 SF office building at 5638 Hollister Ave in Goleta, and a premium-priced retail/office property at 730 Anacapa St in Santa Barbara, purchased at over \$1,300 per SF.

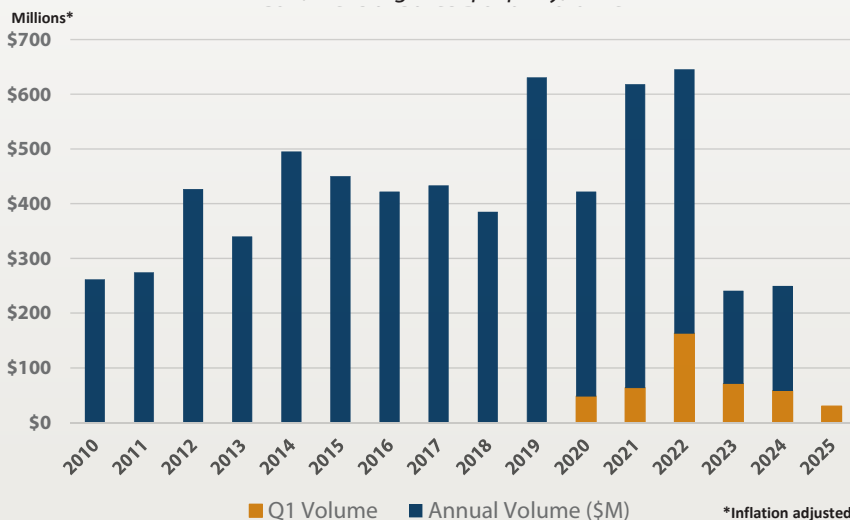
By contrast, owner-user demand was a bright spot, with nine completed transactions—7% above the five-year average. The quarter's highest-price sale was the owner-user purchase

South Coast Commercial Sales Transactions



Above: during Q1 there were 11 sales, compared to the 5-year avg of 20 sales.
Below: non-hotel volume was \$30 million versus the 5-year avg of \$81 million.

South Coast Commercial Dollar Volume (excluding hotel property)



*Inflation adjusted

of 29 W Calle Laureles, a 7,400 SF office building off the upper De La Vina Street corridor, for \$4.6 million.

Another positive sign: nine of the 11 sales were off-market, signaling healthy buyer demand and proactive acquisition strategies. Historically, such off-market activity correlates with confidence in underlying fundamentals, even when overall transaction volume is subdued. The sobering flip side is that only two *on-market* sales closed, the lowest count we have on record.

The lull in activity affected all property types. Office property sales represented 36% of the dollar volume, with the most substantial sales mentioned previously. There were only two industrial sales along Gutierrez Street in Santa Barbara purchased by owner-users. The lone retail sale was 5999 Hollister Ave, a high-traffic corner building in Goleta purchased for Megan's Organic Market cannabis at the lofty price of \$1,095 per SF.

Inventory of property for sale grew 31% during Q1, due both to below-average transaction volume and the preponderance of off-market sales. The current inventory of 68 properties for sale is the most since the end of 2022.

Looking ahead, potential buyers appear more discerning and frugal, reflecting economic uncertainty and financing constraints. Investor demand, while less evident this past quarter, is still alert to opportunities, especially well-located properties or value-add projects with substantial upside. Demand from owner-users is also shaping the

market, as they have found more properties available to choose from while investors take a more cautious stance.

The missing element remains demand at higher price points. There were only 20 commercial sales over \$5 million during 2023 and 2024 combined, and none in Q1 of 2025. Still, 15 such properties are on the market and surely more potential sellers on the sidelines, positioning the region well when momentum at higher price points returns.

OFFICE LEASING

South Coast office leasing was in low gear during Q1, with transactions and dollar value trending 32% and 52%, respectively, below 5-year averages. Yet Goleta has shown resilience, with vacancy dipping below 6%—a substantial improvement over its double-digit rate just two years ago. Meanwhile, Santa Barbara's vacancy is 10.5% and Carpinteria's remains near 20%.

Santa Barbara

- Office vacancy in Santa Barbara has been in double digits for more than two years. Setting aside the conceptual offering of the upper floors of the former Nordstrom building, the vacancy rate is 8.5%, which is still very high compared to historical levels.
- The quarter's largest leases were renewals: American Riviera Bank extended its 13,000 SF lease at 1033 Anacapa St, and CrossnoKaye renewed 7,000 SF in the Granada Tower at 1216 State St. New leases included 5,500 SF at Anacota Plaza (602 Anacapa St) by a nonprofit, and 4,300 SF at 3760 State St by Channel Wealth.
- Small spaces continue to prevail, with two-thirds of leases under 2,000 SF. Professional office space represented most of the activity, while the only tech tenant was the renewal by CrossnoKaye.
- The leasing activity during the quarter did not match the arrival of new vacancy, resulting in a net addition of 11,000 SF to inventory. The largest new space is



The recently remodeled office building at 29 W Calle Laureles in Santa Barbara was purchased by an owner-user for \$4.6 million.



Anduril Industries leased a 6,600 SF office/R&D space on the ground floor of 175 Cremona Dr in Goleta.

13,500 SF of professional office on the second floor of 1021 Anacapa St.

Goleta

- Given that two years ago Goleta's vacancy rate was over 10%, the current vacancy of 5.9% is evidence of the re-stabilization of the office market in Goleta Valley. Gross absorption was relatively modest in Q1 though, totaling 47,500 SF from 7 transactions.
- Kollmorgen Corporation renewed 21,000 SF at 33 S La Patera Ln on a short-term basis, which was the largest Q1 deal in terms of size. Among the new leases, defense contractor Anduril Industries leased 6,600 SF at 175 Cremona Dr, and IT provider CIO solutions leased 4,500 SF at 120 Cremona Dr.
- There are 12 spaces available over 10,000 SF, the three largest of which are for sublease: 43,600 SF at 50 Castilian Dr; 29,300 SF at 6500 Hollister Ave; and 22,700 SF at 425 Pine Ave.
- All told, 44% of the available space is sublease space, a relatively high ratio reflecting evolving space needs in the hybrid work environment that has held sway since the pandemic.

Carpinteria

- In Carpinteria, ForgeLine Solutions leased 8,500 SF of space formerly held by Procore at 6267 Carpinteria Ave. This was the lone transaction in that city during Q1.
- Additional space totaling 70,800 SF offered for sublease by Procore continues to represent the majority of available space in Carpinteria. The ForgeLine lease helped bring vacancy down slightly, but the rate is still very high at 18.1%.

RETAIL LEASING

The South Coast saw limited retail leasing activity in Q1, with transactions posting 25% below the 5-year average. However, vacancy has held steady for the past 12 months and is currently 3.1%.

For the downtown State Street corridor (400 to 1300 blocks), the storefront vacancy rate is 12.4%, as low as it's been for the last five years. Most notable of the new availabilities is the Starbucks space at State and Victoria, representing another example of a national brand potentially vacating a State Street location.

There were five new leases on State Street. Most notably, Pascucci leased 1230-A State St, which will enable Laura



1230-A State St will be the new home of Pascucci, one of the longest-running local restaurant businesses in Santa Barbara.

Knight to continue her restaurant's 30-plus year presence on State Street. The space she is vacating, 509 State St, was quickly claimed by Ghirardelli Chocolate & Ice Cream for its 20th US location. Two leases were signed on the beleaguered 900 block by the pair of tenants who recently set up shops in Summerland's Big Yellow House: Mevra Kamaci leased 909 State for a clothing and jewelry shop, and Arrediamo rugs will occupy 911½ State. Last but not least, the Shade Store renewed 635 State.

Looking at other downtown retail, two leases signed on Chapala Street were House of Brutal Power Gym at 1236 Chapala and AK Auto Repair at 1301 Chapala, across from Public Market. Newly available spaces downtown include the former Banc of California space at 16-20 W Canon Perdido St, and the former Victor the Florist building at 135 E Anapamu St. Also of note, the 33,000 SF ground floor of the former Nordstrom building (called 817 State St) is now being marketed exclusively for retail use.

In Montecito, Marisa Mason Jewelry secured a space at The Post on East Cabrillo Blvd. And Dr. Steven Gundry, whose nutrition ads feature on Youtube, leased the space next to Ca' Dario at 1187 Coast Village Rd. New availabilities include 1137 and 1292 Coast Village Rd.

On Upper State, Mendocino Farms leased the former Panera restaurant space at 3851 State St (next to La Cumbre Plaza) with plans to open next year.

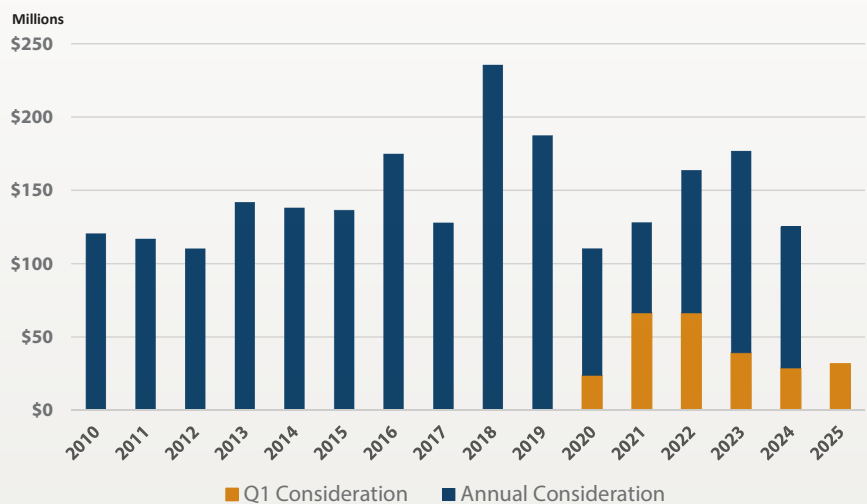
Goleta saw one lease renewal by Phamous Café at The Plaza Shopping Center (7127 Hollister Ave). Recent spaces to come to market are the 10,300 SF cinema space at Fairview Shopping Center, the Kyle's Kitchen space at Hollister Village, and the Goodland BBQ restaurant building in Old Town. All three spaces are still open for business with their current tenants. Goleta vacancy remains quite low at 2.7%, and asking rents average \$3.50 per SF gross.

South Coast Lease Transactions (all property types)



Above: during Q1 there were 48 leases, compared to the 5-year avg of 63 leases.
Below: Consideration was \$32 million versus the 5-year avg of \$45 million.

South Coast Lease Consideration (all property types)



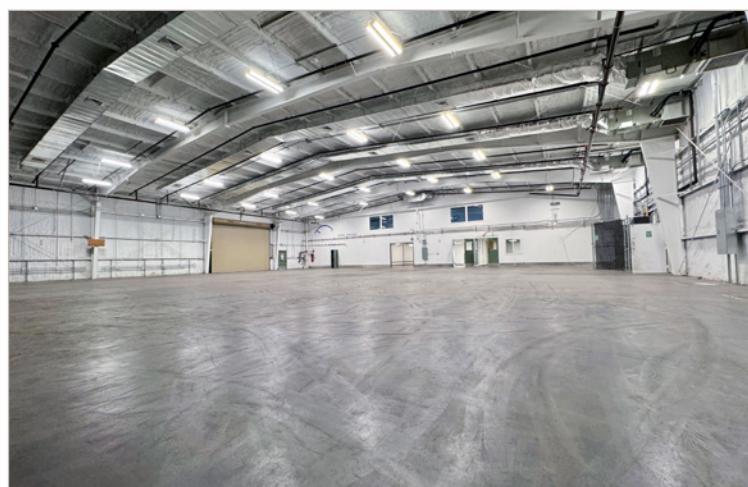
INDUSTRIAL LEASING

Industrial leasing, like office and retail, saw a dip in transactions during Q1. However, a handful of large leases booted gross absorption 48% compared to the 5-year average. Average asking rents rose 10% year-over-year to \$2.36 per SF gross.

Goleta's industrial vacancy decreased slightly in Q1, following Curvature's lease of 26,800 SF at 839 Ward Dr, a building that Herbl remodeled five years ago. Consumer Fire Products subleased 5,832 SF at 147 Castilian Dr from Karl Storz Imaging. The vacancy rate of 3.1% indicates the healthy fundamentals of Goleta's industrial market.

Santa Barbara has seen the addition of three spaces larger than 10,000 SF to the market during the past year. There were three transactions in Q1, including the renewal of 7,450 SF at 526 Laguna St by Santa Barbara Paint Depot. A new lease by Pampel Design secured 3,100 SF at 309 Palm Ave. Even with the added inventory, the vacancy rate remains exceptionally low at 1.4%.

Carpinteria's market was energized by its largest lease in recent years as Mesa Energy Systems secured of 22,000 SF at 1120 Mark Ave, previously held by Bright Rentals. Gigavac brought 40,000 SF to market for sublease at 6382



Curvature leased 26,800 SF at 839 Ward Dr in Goleta, a building formerly occupied by Herbl that includes 16,000 SF of warehouse.

Rose Ln. All told, the vacancy rate of 5.7% represents about 20% more available space than a year ago.

LEASING MARKET DATA

	Market	Vacancy Rate		Transactions		Gross Absorption (SF)		Achieved Rent (PSF GR)	
OFFICE	Santa Barbara	10.5%	+2%	15	-38%	48,391	-35%	\$3.03	-9%
	Goleta	5.9%	-5%	7	-22%	47,457	-25%	\$2.34	+5%
	Carpinteria	18.1%	-6%	1	+100%	8,560	+749%	\$2.34	+4%
RETAIL	Santa Barbara	3.2%	-4%	16	+5%	31,413	-10%	\$5.31	+33%
	Goleta	2.7%	+1%	1	-75%	1,580	-81%	\$4.00	+23%
	Carpinteria	4.1%	+19%	1	-60%	1,020	-77%	\$4.20	-10%
INDUSTRIAL	Santa Barbara	1.4%	+12%	3	-20%	13,658	-5%	\$2.32	+20%
	Goleta	3.1%	-3%	3	-25%	81,918	+30%	\$1.92	+9%
	Carpinteria	7.3%	-23%	1	-43%	22,000	+45%	\$1.20	+7%

Change percentages are compared to 2024 values, annualized where appropriate.

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