

COMMERCIAL SALES: A Slight Boost in a Cautious Market

The South Coast commercial sales market recovered momentum in Q2, recording 20 sales totaling \$74.6 million, compared to just 11 transactions totaling \$29.8 million in Q1. While deal volume is still down compared to recent boom years, the upshift in Q2 reflects a steady flow of owner-users, select high-value transactions, and disciplined investor participation. In a market shaped primarily by interest rate pressure, transactions are still happening, particularly in lower price ranges, with owner-users and local investors stepping in where institutional buyers have pulled back.

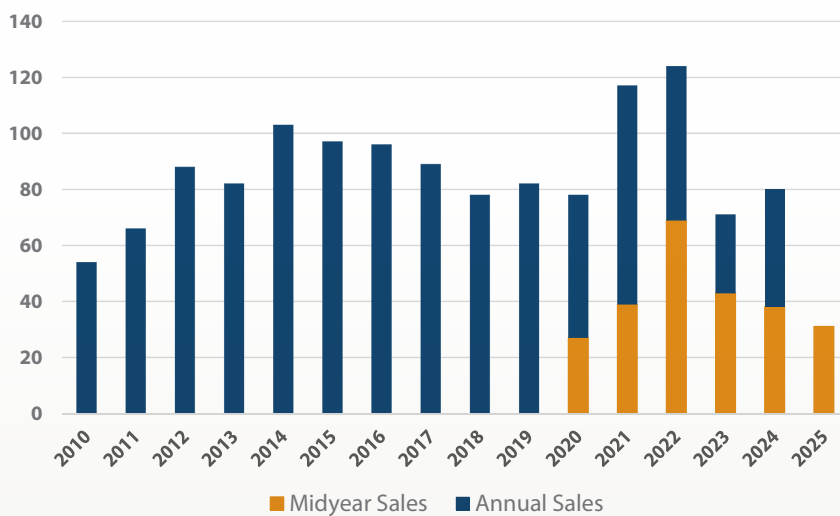
After surging during the post-COVID run-up in 2021–22, sales activity decreased profoundly in the years since, primarily in response to higher interest rates. This year's 31 transactions at midyear is only 9% below the 5-year average, though dollar volume is down 49%.

Now that we are more than two years into this cycle, its features have become familiar. High-leverage buyers are scarce, and there's a clear pivot toward properties that align with long-term strategy—owner-occupancy, redevelopment, or cash-flow durability.

Price Sensitivity: The \$5M Line

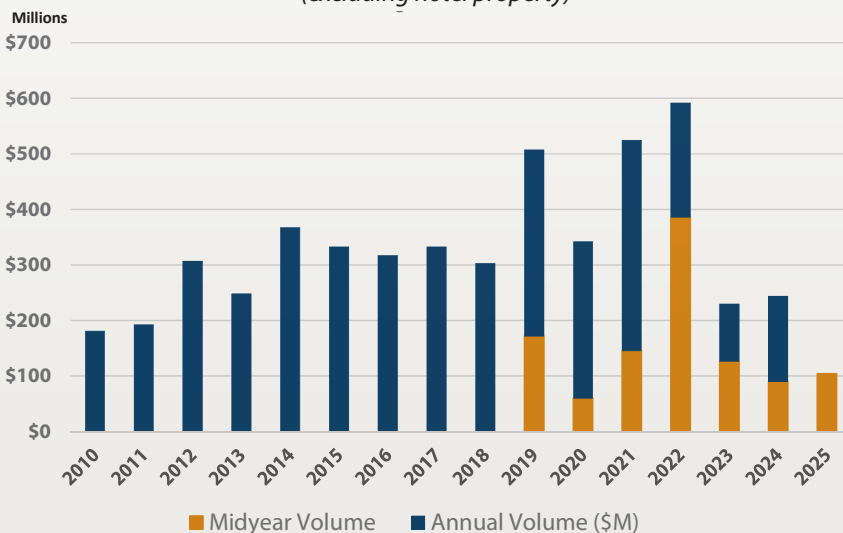
Another defining feature of the present market is the drop in higher-dollar transactions. Just 36% of dollar volume to date in 2025 was generated by sales over \$5 million, compared to 73% in 2022. This dramatic shift highlights the caution among investors and the drying up of active institutional capital. That leaves 64% of dollar

South Coast Commercial Sales Transactions



Above: at midyear there were 31 sales, compared to the 5-year avg of 36 sales.
Below: dollar volume was \$104 million versus the 5-year avg of \$178 million.

South Coast Commercial Dollar Volume (excluding hotel property)



volume from sales under \$5M, driven by owner-users and private investors with modest financing needs.

Off-Market Activity Signals Strategic Demand

A standout trend in 2025 is the sheer volume of transactions happening off-market. Through midyear, 21 of 31 closed deals, or 68%, were completed off-market, representing 77% of total dollar volume. That's a substantial increase from historic norms, where off-market transactions typically accounted for 45% of the sales. With more than \$79 million changing hands outside the public listing process, it's clear that relationship-driven deals are essential to this cycle.

In a market defined by price sensitivity and underwriting caution, off-market sales offer discretion to sellers and speed to buyers. They also reflect latent demand: buyers who are engaged, well-capitalized, and ready to move when the right opportunity surfaces.

Who's Buying

Elevated interest rates continue to weigh heavily on sales activity. With the federal funds rate holding at 4.3%, debt-dependent acquisitions remain constrained.

For investors, risk-adjusted returns remain challenging to achieve with current financing costs, so the focus has narrowed to assets with predictable income, redevelopment

ment upside, or exceptional locations. In the South Coast's largest commercial sale year to date, the flex/R&D building 326 Bollay Dr in Goleta traded for \$15.8M to an investor buyer. The building's existing long-term lease to Redwire Space and location in the thriving tech and engineering corridor were key selling points.

At the national level, there was reportedly an uptick in institutional CRE acquisitions during Q2, as investors sought a low-risk harbor to park capital amid uncertainty over tariffs and other economic factors. On the South Coast, investor sales did pick up during the past three months, with 13 of the 15 year-to-date deals closing in Q2. However, the investor dollar volume for the quarter—\$52.8 million—was still less than half the 5-year quarterly average.

By contrast, owner-users sales to date are on par with the recent historical norm, completing 16 sales by midyear. These buyers—often local businesses, medical practices, or professional service firms—are leveraging SBA financing or long-term occupancy strategies to justify acquisitions despite higher borrowing costs.

In one recent example, MidFirst Bank purchased 1100 Santa Barbara St, a downtown office building it had been leasing, for \$4.45 million. Another standout owner-user transaction in Q2 was the \$10 million purchase of 901 State St by Music Academy of the West, the largest owner-user sale of the year to date.

Current sales activity reflects active demand when the property aligns with operational goals or long-term value creation. But the pricing must reflect present-day underwriting, and buyers need to believe in the value proposition.

Property Breakdown: What's Selling

Office sales have picked up the pace from record low volume in 2024, posting 11 sales valued at \$28 million at midyear, but the activity is still well below historical norms. The largest office sale to date was the 21,400 SF building at 114 E Haley St in Santa Barbara, purchased in Q2 for \$5.8 million by an investor who will likely reposition the property in a value-add play.



The 42,600 SF flex building at 326 Bollay Dr in Goleta was purchased by an investor for \$15.8 million.

Retail property saw 10 sales totaling \$35 million, nearly half of which resulted from two Q2 sales. The former Forever 21 building at 901 State Street which, as mentioned previously, will be repurposed for educational use. And the 1.45-acre automotive sales property at 5580-5590 Hollister Ave in Goleta was purchased by an investor for \$5.5 million, presumably for redevelopment. Bolstered by these deals, retail dollar volume is trending 42% above the 5-year average for midyear sales.

There were 7 Industrial sales totaling \$33 million, which is on par with 5-year trends. Aside from the large sale of 326 Bolly Dr noted previously, Q2 featured several lower-priced deals, such as 324 Palm Ave in Santa Barbara (\$3.5M), 5780-5782 Thornwood Dr in Goleta (\$2.5M), 6387 Rose Ln in Carpinteria (\$2.9M), all investor-driven and reflective of continued interest in South Coast's tight industrial submarket.

Looking Ahead

The first half of 2025 reflects the character of the current market cycle. The boom years of 2021-22 are behind us, and the higher-interest-rate environment is less about volume and more about resilience. But the South Coast market continues to show depth and adaptability. Transactions are happening when seller expectations are realistic and the asset supports actionable strategy—



Music Academy of the West purchased 901 State St in the heart of downtown Santa Barbara for \$10 million.

whether that's occupancy, repositioning, or durable cash flow.

The outlook for the second half of 2025 remains steady, with some growth potential if sellers step forward and interest rates soften. Owner-users will likely remain the more engaged cohort, but investors may shed some of their caution, as has happened at the national level.

Inventory for sale has increased by 42% since the beginning of the year. For owners, making a sale requires calibrating to what buyers are underwriting. For buyers, opportunity is there for those ready to move when the fit is right.



1100 Santa Barbara St was purchased by MidFirst Bank in an owner-user transaction for \$4.45 million.

SEGMENTS TO WATCH

- Downtown Santa Barbara remains a focal point for repositioning and mixed-use redevelopment.
- Goleta industrial and R&D continues to attract buyers seeking proximity to UCSB and the tech, engineering and bioscience corridor. The challenge is finding owners willing to sell.
- Downtown professional office offers opportunities for users looking to right-size with CBD location and visibility, especially at adjusted pricing.

OFFICE LEASING

The South Coast's office market remains steady midway through 2025, while at the national level, office vacancy is floating near 20%, due mainly to hybrid and remote work patterns ushered in during the pandemic. However, Fortune 100 firms are more resolutely curtailing remote work policies, a shift that could support gradual recovery of office demand here as well.

That said, "less space, better space" remains a guiding principle for tenants, especially in tech. Landlords who subdivide larger offices, enhance amenities, and offer turnkey suites will be better positioned to catch the next wave of demand.

South Coast vacancy has decreased slightly year-over-year, though leasing transactions at midyear were 23% short of the 5-year trend. The average office space leased is approximately 22% smaller than pre-pandemic norms, holding gross absorption 25% below the 5-year average. Rental rates are stable due to constrained high-quality supply and a shift toward amenity-rich office spaces.

Santa Barbara Office

Santa Barbara's office vacancy is 10.4%, up from 9.2% a year ago. Excluding the former Nordstrom shell space, the functional rate is closer to 8.4%, which is still about 40% more available space than prior to the pandemic. Leasing activity is steady, but average lease size has shrunk to roughly 3,250 SF, as tenants prioritize space efficiency.

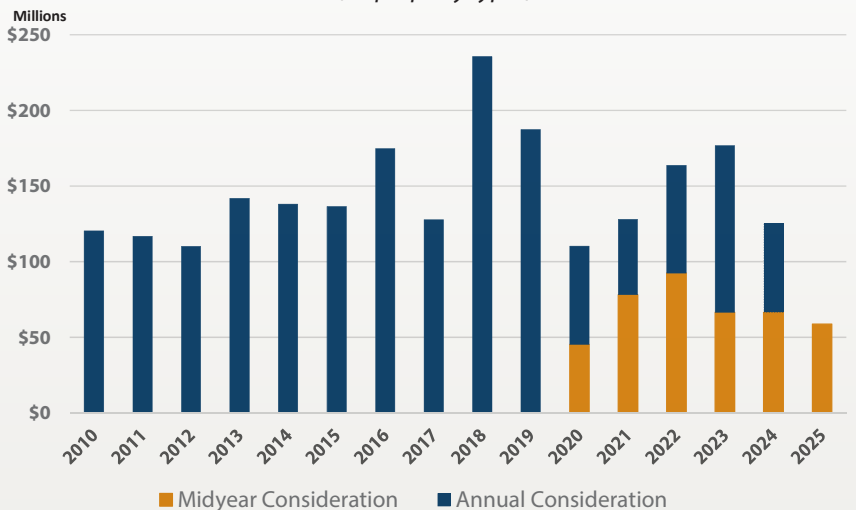
Midyear gross absorption in Santa Barbara came in 34% below the 5-year average, and transactions were also below trend. However, achieved rents held fast in the \$3.00 per SF gross range. The inventory of available spaces has decreased 15% since a year ago, an encouraging trend.

South Coast Lease Transactions (all property types)



Above: at midyear there were 113 leases versus the 5-year avg of 130 leases.
Below: Consideration was \$59 million versus the 5-year avg of \$69 million.

South Coast Lease Consideration (all property types)



Notable Q2 office leases include:

- Kiva Coworking renewed 11,200 SF at 1117 State St for 10 years. Satellite restaurant and wine bar will remain onsite as well.

- Local tech startup Unwrap.ai leased 6,750 SF of creative office at 419 State St, the building formerly occupied by Invoca, which has been demised into smaller spaces to accommodate demand.
- Katz-Moses Tools expanded into 7,900 SF of second-floor office at 4183 State St. They already occupy 15,600 SF on the ground floor.
- Edward Jones leased 4,500 SF at 136 W Canon Perdido St for a 10-year term.

Goleta Office

Goleta continues to be the tightest office submarket on the South Coast, with vacancy contracting from 6.5% to 5.9% over the past 12 months. Gross absorption for the first half of 2025 totaled 120,600 SF, a relatively modest decrease of 17% from the 5-year average.

The average Goleta office lease was over 6,700 SF, more than double that of Santa Barbara. At the same time, the gap in rent between the two cities continues to narrow, with Santa Barbara's office rents now averaging 29% higher than Goleta, compared to a 40-50% difference historically.

Q2 produced several significant leases, including:

- The State of California leased 13,700 SF at 120 Cremona Dr, showcasing institutional demand for campus-style office settings.
- Soraa Laser Diode renewed 11,624 SF at 485 Pine Ave, a property they have been leasing for over a decade.
- Reaction 35 renewed 10,250 SF at 861 Ward Dr, where they have been a tenant for 8 years.

Carpinteria Office

Carpinteria's office vacancy rate was in the teens at the end of June, but a large lease signed at 6267 Carpinteria Ave in early July has brought vacancy down to 7%. The relief may be temporary, however, as the deal will likely



The State of California leased 13,700 SF of class A second-floor office space at 120 Cremona Dr in Goleta.

cause another large vacancy to hit the market later this year. We will cover those details in our next report, but the lease absorbed much of the former Procore space on the bluffs. Prior to that, the only office lease this year was also at 6267 Carpinteria Ave, where Forgeline Solutions secured 8,500 SF in January.



Unwrap.ai leased 6,750 SF of creative office at 419 State St in downtown Santa Barbara, formerly occupied by Invoca and Sonos.

RETAIL LEASING

U.S. retail vacancy has tightened to around 4–6%, and while big-box centers show selective weakness, neighborhood and grocery-anchored centers remain in high

demand. Tenant demand is shifting toward experiential and daily-use formats that support walkability and convenience. Many of these trends are evident here on the South Coast as well.

Spaces in daily-use and service-oriented centers tend to lease quickly, while Santa Barbara's large malls and the State Street corridor face persistent challenges, despite relatively strong retail fundamentals in the economy broadly. Available space has grown by 19% over the past year, but the rate is still relatively low at 3.2%.

Through mid-2025, the South Coast saw 34 retail transactions, which represents a 19% decrease from the 5-year trend.

Santa Barbara Retail

Midyear retail gross absorption in Santa Barbara stands at approximately 64,000 SF, nearly 26,000 SF of which was on the State Street corridor. Most notably, the lease of 710 State St by Thrifty Beaches absorbed 8,800 SF vacated by Restoration Hardware. Also in Q2, Ghirardelli Chocolate Company leased 509 State St, backfilling the space vacated by Pascucci as it moved to the 1200 block. One block up, the former Billabong storefront at 631 State St was leased by Caravan by KikiSol.

While leasing activity on State Street has been resilient, the corridor continues to see fairly high turnover, and the storefront vacancy rate for the 400 to 1300 blocks remains concerning at 13.7%. Despite these challenges, there are positive signs: new developments are in the works to provide housing, and owner-driven initiatives to enhance cleanliness, safety, and activation are gearing up to help address vacancy.

Off State Street, but still downtown, there was also considerable leasing activity. In Q2, Kickboxers, Inc renewed 5,000 SF at 122 E Gutierrez St, and Timber & Wool Floors secured a 3,260 SF showroom at 322 E Cota St. Three signings this year at the Public Market have brought Seoulmates, 'Que, and Fresco to the mix, leaving the busy food hall almost fully leased.



Thrifty Beaches took over the 8,800 SF former Restoration Hardware building at 710 State St in Santa Barbara.

Coast Village Road has translated its upscale image into the South Coast's highest retail rents. The three leases to date averaged \$10.80 per SF gross (while State Street corridor leases averaged \$4.00 per SF gross). The most recent Montecito lease was a Q2 signing by Cadavid Dental at 1292 Coast Village Rd.

Goleta Retail

Goleta's retail market continues to exhibit relatively low vacancy and limited deal velocity. The vacancy rate of 3.1% is toward the high end for the city historically, though not a level to cause major concern.

If there is a concern, it is the area surrounding the Fairview & Calle Real intersection, where most (64%) of Goleta's current vacancy is focused, as both Fairview Center and Calle Real Center continue to carry significant availability, and between them lies the long-vacant 10,700 SF former Santa Barbara Motorsports showroom at 5955 Calle Real. For the rest of Goleta and Isla Vista, vacancy is very tight.

Leasing has been scarce in Goleta with only four leases totaling 5,600 SF though midyear, three of which were signed in Q2. Two of those were in Calle Real Center, which added Laser Away and Drover's Doughnuts to the directory. The third was Cookie Plug's relocation from downtown Santa Barbara to 6529 Trigo Rd in Isla Vista.

INDUSTRIAL LEASING

South Coast industrial leasing at midyear 2025 was weighted toward Goleta and Carpinteria, while Santa Barbara activity remains hindered by lack of inventory. Whereas industrial vacancy in national markets has surpassed 7% and rent growth has slowed, the South Coast continues to see limited supply, diverse tenant demand, and minimal new construction—all contributing to low vacancy and rent growth.

Gross absorption across Santa Barbara County's industrial market totaled 170,000 SF through midyear, with Goleta driving 75% of the space. Despite economic uncertainty, tenant interest in high-quality industrial and R&D-friendly flex properties remains consistent.

Santa Barbara Industrial

Santa Barbara's industrial demand continues to grapple with chronic undersupply of space. The vacancy rate ended Q2 at 1.7%, which is actually near the 15-year high. There were 7 leases totaling 19,700 SF through midyear, representing a 60% drop in gross absorption compared to the 5-year average.

Leasing was concentrated in smaller industrial spaces, as the three Q2 leases were all under 2,250 SF. These included a sublease at 137 S Quarantina St by Channel Coast Corp, and a small lease at 218 Helena Ave by SeeVees. Achieved rents ranged from \$2.15 to \$4.10 per SF gross, with well-located and updated properties commanding a premium.

Goleta Industrial

Goleta continues to be the region's industrial hub, generating the bulk of leasing volume in the first half of 2025. Midyear gross absorption approached 130,000 SF, outpacing the 5-year trend by 12%.

In the largest South Coast lease year to date, Umbra Lab moved from downtown Santa Barbara into 49,275 SF at 7418 Hollister Ave, providing a much larger space and situating their operations among other aerospace and



Umbra Space leased about half of 7418 Hollister Ave in Goleta, after being located in downtown Santa Barbara for many years.

tech companies in Goleta. Curvature also made a move, relocating from 7418 Hollister Ave to 26,800 SF at 839 Ward Dr. There were several medium-sized leases in Q2, including 7,500 SF at 5730 Thornwood Dr leased by an individual, 6,000 SF at 859 Ward Dr by Karbonetiq, Inc; and 4,600 SF at 302 Pine Ave by Santa Barbara Hackerspace.

Despite the activity and above-average gross absorption, vacancy increased to 3.8%, as 33,400 SF came to market for sublease at 440 Rutherford St. While this is the highest Goleta vacancy rate in four years, demand appears sufficient to absorb some of that inventory in the coming quarters.

Carpinteria Industrial

Carpinteria's industrial market has been very quiet so far in 2025, with just one lease to date. It was a substantial transaction, however, as Mesa Energy Systems secured 22,000 SF at 1120 Mark Ave back in March. This deal helped bring vacancy down from 7.3% to around 6%. The largest availability is 40,000 SF offered for sublease by Gigavac at 6382 Rose Ln, which came to market in Q1.

Industrial tenants continue to be elusive in Carpinteria, especially for larger formats, and with three of the four availabilities over 15,000 SF, vacancy will likely hold firm for the time being.

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LEASING MARKET DATA

	Market	Vacancy Rate		Transactions		Gross Absorption (SF)		Achieved Rent (PSF GR)	
OFFICE	Santa Barbara	10.4%	+0%	36	-25%	116,665	-22%	\$3.01	-10%
	Goleta	5.9%	-4%	18	+0%	120,639	-4%	\$2.34	+5%
	Carpinteria	7.0%	-64%	1	+0%	8,560	+324%	\$2.34	+4%
RETAIL	Santa Barbara	3.1%	-7%	29	-5%	64,884	-7%	\$4.75	+19%
	Goleta	3.1%	+17%	2	-75%	2,671	-84%	\$4.05	+25%
	Carpinteria	4.1%	+13%	3	-40%	3,058	-65%	\$3.62	-22%
INDUSTRIAL	Santa Barbara	1.7%	+31%	7	-7%	19,730	-31%	\$2.75	+42%
	Goleta	3.7%	+19%	14	+75%	128,898	+2%	\$2.29	+31%
	Carpinteria	7.3%	-19%	1	-71%	22,000	-27%	\$1.20	+7%

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

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