



COMMERCIAL SALES: Cautiously Optimistic

South Coast commercial sales showed steady progress through the third quarter of 2025. After a very slow start to the year, the pace of closings quickened this summer, and momentum appears to be gradually building month by month. While overall activity remains below the region's long-term average, the tone has shifted from cautious to cautiously optimistic.

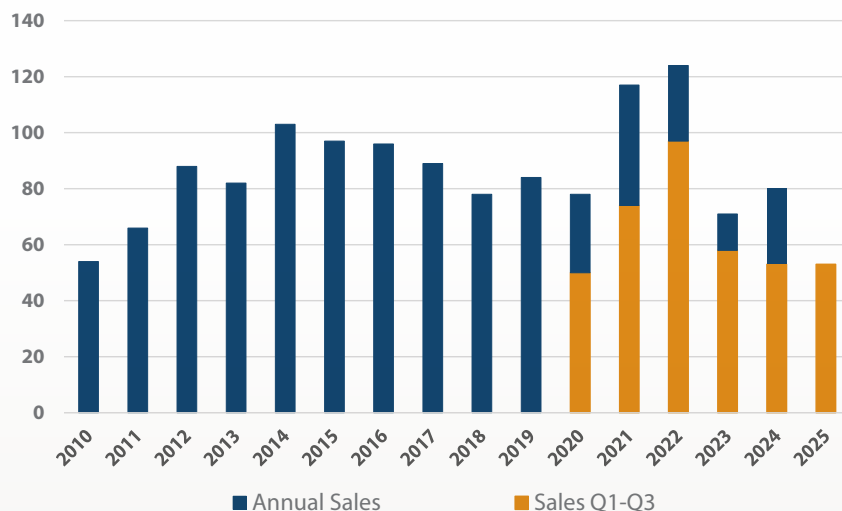
Through September, 53 commercial transactions closed across all property types, matching last year's count at this point, though still about 20% shy of the five-year norm. Total non-hotel dollar volume reached \$174 million, a notable 28% improvement from a year ago.

The scarcity of sales above \$5 million persists, down more than 50% from the 5-year average. However, there are signs of rebounding appetite for properties above that price threshold: none closed in Q1, four in Q2, five in Q3(including two hotels), and more in process so far in Q4.

Activity by Property Type

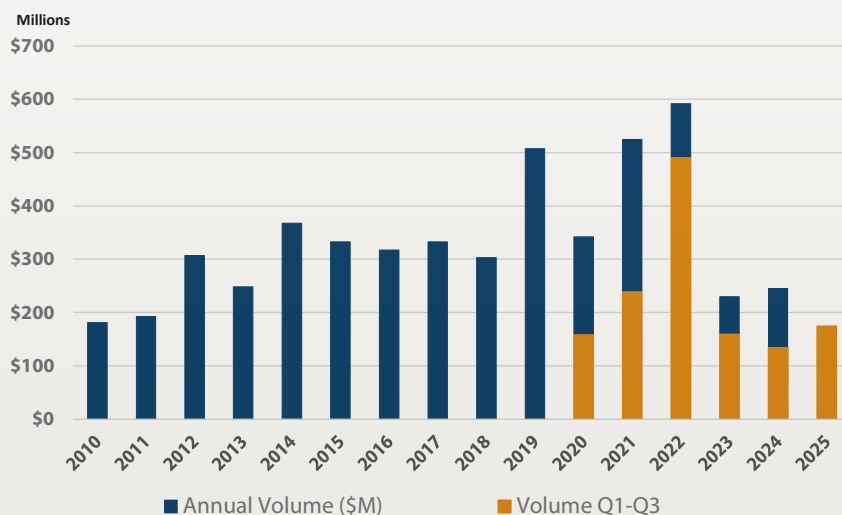
Office properties continued to feel the effects of a changing workplace landscape. Only 14 office sales have traded so far this year, about 30% fewer than usual. Dollar volume has fallen even more sharply, down roughly 44%. Yet some standout deals hint at underlying resilience. In Q3, Cottage Health purchased the medical office building at 111 E Victoria St in Santa Barbara for \$21.5 million. There weren't any notable traditional office properties sold in Q3, though there are some office deals under contract that may close in Q4.

South Coast Commercial Sales Transactions



Above: through Q3 there were 53 sales, compared to the 5-year avg of 66 sales.
Below: non-hotel volume was \$174M versus the 5-year avg of \$238M.

South Coast Commercial Dollar Volume (excluding hotel property)



Industrial property remains the most reliable sector, with transactions up 9% and total dollar volume up about 20% compared with the 5-year average. The \$15.8 million sale of 326 Bollay Dr highlighted strong demand for well-located industrial and flex space. Buyers paid a premium for downtown industrial space, which traded for \$580/SF on average, while in other areas the average sale price was \$293/SF.

Retail results were mixed. Sales volume along the South Coast stayed close to normal, but downtown Santa Barbara saw fewer transactions than last year. The most notable Q3 downtown sale was 132 Santa Barbara St—formerly the Michael Kate building—purchased for \$6.9 million by the owners of Rusty's Pizza. While Starbucks closed another downtown location on State Street, the building Starbucks recently leased at 402 N Milpas St was purchased by an investor in Q3 for \$1,700/SF.

Hospitality deals captured attention in Q3, as the renowned El Encanto sold for \$82.2 million and the Best Western Plus at 4558 Carpinteria Ave traded for \$26.9 million. These transactions suggest investor confidence in local tourism fundamentals, even as California's lodging sector contends with a decrease in out-of-state visitors.

Who's Buying

Investors re-engaged in Q2 and stayed active in Q3, accounting for over half of purchases in both quarters. Investor activity remains below historic norms though, with transactions down 26% against the 5-year norm. The most sizable Q3 deal was Cottage Health's \$21.5M acquisition of 111 E Victoria St—an intriguing move given their competitor UCLA Health is the long-term tenant.



Cottage Health purchased the 42,000 SF medical building occupied by its competitor at 111 E Victoria St for \$21.5M

For Cottage this appears to be an investment with the potential to occupy the building in the distant future, as UCLA Health has options to remain for up to 18 years.

Owner-users continue to be the more consistent buyer segment, posting an 8% gain in total dollar volume, compared to the 5-year average. The purchase of 132 Santa Barbara St (mentioned above) was the most substantial Q3 owner-user deal. How Rusty's plans to use the space has not been confirmed, but rumors suggest it will not be a standard pizza parlor.

Looking Ahead

Overall, Q3 marked another step in the region's slow but steady recovery. Off-market transactions rose to 55% of all sales so far this year, roughly 10 percentage points higher than average. That shift underscores how much of today's activity happens through relationships rather than open

Notable Q3 2025 Sales

Address	Market City	Property Type	Price	Size (Approx.)	Buyer Type	Market Status
111 E Victoria St	Santa Barbara	Office	\$21.5M	19,600 SF	Investor	Marketed
326 Bollay Dr	Goleta	Industrial	\$15.8M	42,600 SF	Investor	Off Market
132 Santa Barbara St	Santa Barbara	Retail	\$6.9M	10,000 SF	Owner-User	Marketed
El Encanto Hotel	Santa Barbara	Hospitality	\$82.2M	92 Rooms	Investor	Marketed
4558 Carpinteria Ave	Carpinteria	Hospitality	\$26.9M	50 Rooms	Investor	Off Market



An investor acquired the 42,600 SF industrial/flex building at 326 Bolla Dr in Goleta, occupied by Redwire Space, for \$15.8M.

marketing, while indicating improving demand from buyers.

Even with softer sales activity, available inventory has eased slightly from 74 active listings midyear to 66 at quarter's end. The Federal Reserve's recent rate cuts are already creating more favorable conditions for leveraged buyers. As of this writing, October brought 9 closings, the strongest single-month performance this year, which underscores the gradual building of momentum in the market. Pricing expectations are coming into better alignment, financing is marginally more accessible, and investor demand—while still selective—is emerging. As we approach the end of the year, the groundwork appears to be in place for continued growth in 2026.

OFFICE LEASING

With several large leases signed during Q3, South Coast office vacancy reached its lowest rate in five years at 7.4%. Strong leasing activity in all three market cities yielded 290,000 SF of gross absorption, the largest quarterly total since early 2019.

Santa Barbara office leasing kicked into high gear in Q3, following lackluster activity in the first half of the year. The quarter's largest lease was 13,150 SF at 419 State St, signed by SBCC for its Cosmetology Academy. This signing, combined with recent leases by Unwrap and Downtown Santa Barbara Improvement Association, have

transformed the 27,700 SF building from fully vacant to fully leased within the past six months. Among other notable downtown leases, Farmers & Merchants Bank expanded into an additional 6,700 SF formerly occupied by the Towbes Group on the second floor at 33 E Carrillo St. Medical software company pMD subleased 6,200 SF at 506 Chapala St from Data Hardware Depot, who "right-sized" to a 2,700 SF suite at 136 W Canon Perdido St. The Land Trust for Santa Barbara County signed a 10-year lease on 4,500 SF at 1332 Anacapa St. For downtown office, Q3 was the strongest leasing quarter in three years, and Santa Barbara's 8.6% office vacancy is the lowest rate since 2020.

Notable Q3 2025 Office Leases

Address	Market City	Sq Ft	Transaction	Tenant
1332 Anacapa St, 105	Santa Barbara	4,500	Lease	Land Trust for Santa Barbara County
506 Chapala St	Santa Barbara	6,211	Sublease	pMD
33 E Carrillo St, 200	Santa Barbara	6,700	Expansion	Farmers & Merchants Bank
419 State St	Santa Barbara	13,150	Lease	SBCC School of Cosmetology
6868 Cortona Dr, 2nd Fl	Goleta	15,250	Renewal	Openlight Photonics
71 S Los Carneros Rd	Goleta	22,380	Sublease	Apeel Sciences
71 S Los Carneros Rd	Goleta	105,250	Lease	UC Regents
6267 Carpinteria Ave	Carpinteria	42,395	Lease	PlanMember Services Corporation



PlanMember Services leased 42,395 SF at 6267 Carpinteria Ave, previously occupied by Procore.

Goleta office vacancy has hovered around 6% over the past year, which is a relatively low rate historically and reflects stable demand. In Q3, UCSB leased the 105,250 SF office/flex building at 71 S Los Carneros Rd to house various engineering projects. Apeel Sciences has occupied the property since 2017 and signed a sublease to retain about 20% of the building as a subtenant. The UCSB deal was the South Coast's largest commercial lease in at least five years, with a gross consideration over \$23 million. Also of note in Q3, OpenLight Photonics renewed 15,250 SF at 6868 Cortona Dr, a second-floor space inherited from Aurion and Juniper Networks after multiple restructurings. More than 70% of Goleta's inventory is second-floor space, as shifts in office use continue to disrupt demand for suites above ground level, especially in the region's business parks.

Carpinteria saw a major Q3 office signing as PlanMember Services leased 42,400 SF on the bluffs at 6267 Carpinteria Ave for an 11-year term. This space had been offered by Procore for sublease for years, but this deal is a direct lease that relieves Procore of their obligation. PlanMember Services is moving from a few doors down at 6185 Carpinteria Ave, where they had been for decades. Not surprisingly, the lease drove a major reduction in inventory, which contracted by 65% since the beginning of the year, ending Q3 at a relatively low vacancy rate of 6.7%.

RETAIL LEASING

South Coast retail tenants have been active so far in 2025, driving a 16% increase in lease transactions, compared to the 5-year average. However, they continue to favor more compact spaces, averaging nearly 550 SF smaller in Santa Barbara and 1,150 SF smaller in Goleta, compared to 5-year averages. As a result, though more leases are being signed, the gross absorption of space is decreasing. For the South Coast, YTD gross absorption is trending 15% below the 5-year average. Nevertheless, vacancy has held steady and relatively low, hovering around 3% for the region.

Fitness was a recurring theme in Q3. In addition to the Pad Climbing gym opening at Magnolia Center, there was a convergence of fitness tenant signings, including: FS8 Santa Barbara at Mesa Shopping Center, Mighty Pilates

Notable Q3 2025 Retail Leases

Address	Market City	Sq Ft	Transaction	Tenant
1014 State St, B	Santa Barbara	1,150	Lease	Polette Eyewear
920 State St	Santa Barbara	1,240	Lease	Game Seeker
187 S Patterson Ave	Goleta	1,470	Lease	Elysium Strength & Wellness
918 Chapala St	Santa Barbara	1,700	Lease	Motion Training Collective
6865 Hollister Ave, 12-13	Goleta	2,140	Lease	Kyle's Kitchen
1128 Chapala St	Santa Barbara	2,480	Lease	The Rack Pool Hall
1014 State St, A	Santa Barbara	2,500	Lease	Mighty Pilates
Mesa Shopping Center	Santa Barbara	3,450	Lease	FS8 Santa Barbara
5820 Calle Real	Goleta	4,545	Lease	Sweetgreen

at 1014-A State St, Motion Training at 918 Chapala St, and Elysium Strength at 187 S Patterson Ave in Goleta.

On the food and beverage front, Sweetgreen leased the former Carl's Jr building at 5820 Calle Real. Kyle's Kitchen leased 2,100 SF at the Target center in Goleta, to which they will move from their location at Hollister Village, which reportedly has already been leased by an unnamed tenant.

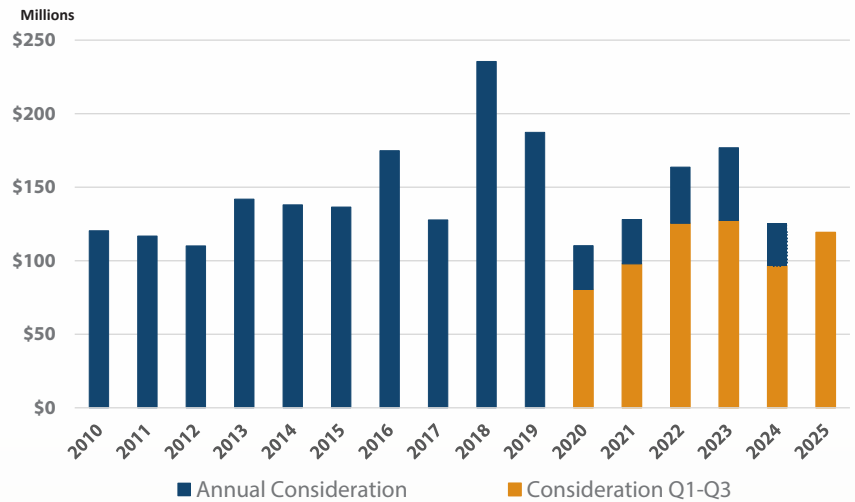
Other downtown leases were signed by The Rack, the family-friendly pool hall at 1128 Chapala St; Game Seeker, which found a home at 920 State St; and Polette Eyewear coming to 1014-B State St. (With two leases signed in Q3, the recent buyers of 1014 State St achieved a fully leased investment within 3 months of purchase.)

Santa Barbara's retail vacancy is 2.7%, the lowest rate since 2016. Vacancy has also eased a bit on the State Street corridor, where storefront vacancy is 12.4%. The availabilities are currently clustered on the 400, 600 and 900 blocks, which each have 5+ storefronts available or vacant. Excluding those three blocks, the vacancy rate for State Street is 8.4%.



1014 State St is fully leased following Q3 deals with Mighty Pilates and Polette Eyewear.

South Coast Lease Consideration (all property types)



Goleta's available space has grown by 30% since the beginning of 2025. The 18,000 SF Rite Aid space in Fairview Center is the largest recent addition to the market. More than 60% of Goleta's available space is focused around the intersection of North Fairview and Calle Real. Nevertheless, a handful of tenants have signed leases to date along Calle Real, including Sweetgreen, Laser Away, and Drover's Doughnuts.

Montecito's lower village currently has no vacancy, and the lone Q3 lease was 840 SF at 1137 Coast Village Rd signed by 27 Miles Malibu.

INDUSTRIAL LEASING

South Coast industrial leasing was extremely limited in Q3, with only 4 transactions completed totaling 25,100 SF, all of which were in Goleta. The one notable deal was signed by Meridian Defense Corp, which manufactures parts for firearms and leased the 12,250 SF building at 165 Castilian Dr, formerly occupied by Redwire Space.

Q3 was the second consecutive quarter with leasing well below trend, resulting in YTD gross absorption 34% short of the 5-year average. However, rents continue to appreci-

ate: the average achieved rate this year is nearly 5% above the record-high level established in 2024.

Across the South Coast, available space has increased 35% during the past 12 months. In Santa Barbara, there are four properties with over 10,000 SF available, the most recent addition being 12,600 SF at 402 E Gutierrez St, formerly occupied by the Tent Merchant. In Carpinteria, nearly 60,000 SF came to market in Q3, including 34,400 SF offered for sublease by Soli Organic at 6395 Cindy Ln. In Goleta, 33,400 SF of warehouse at 440 Rutherford St recently came to market for sublease by Moss Motors. The current South Coast vacancy rate of 3.0% is above average historically, but not at a level to cause concern.



Meridian Defense Corp leased the 12,250 SF industrial building at 165 Castilian Dr in Goleta.

Notable Q3 2025 Industrial Lease

Address	Market City	Sq Ft	Transaction	Tenant
165 Castilian Dr	Goleta	12,250	Lease	Meridian Defense Corporation

LEASING MARKET DATA

	Market	Vacancy Rate		Transactions		Gross Absorption (SF)		Achieved Rent (PSF GR)	
OFFICE	Santa Barbara	8.6%	-17%	63	+31%	194,541	+30%	\$3.02	-10%
	Goleta	6.1%	-1%	29	+61%	293,236	+133%	\$2.37	+6%
	Carpinteria	6.7%	-65%	4	+300%	53,981	+2576%	\$3.47	+53%
RETAIL	Santa Barbara	2.7%	-18%	53	+74%	110,788	+59%	\$4.48	+13%
	Goleta	3.5%	+32%	10	+25%	21,190	+26%	\$4.35	+34%
	Carpinteria	4.1%	+0%	3	-40%	2,998	-66%	\$3.62	-22%
INDUSTRIAL	Santa Barbara	1.8%	+38%	7	-7%	19,730	-31%	\$2.73	+41%
	Goleta	3.8%	+21%	15	+88%	141,503	+12%	\$2.13	+21%
	Carpinteria	7.3%	-37%	2	-43%	29,200	-4%	\$1.20	+6%

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

To receive future Hayes Commercial Group reports, please visit HayesCommercial.com and subscribe.

OUR TEAM, YOUR TEAM.



As the South Coast's longest running commercial real estate firm, our clients have put their trust in us time and again. Our commitment to your success remains the same, through unmatched expertise, teamwork, and unwavering integrity.

Rely on our expertise. Stay ahead of the market.



**Rob
Adams**
805.898.4386

**Greg
Bartholomew**
805.898.4395

**Christos
Celmayster**
805.898.4388

**Francois
DeJohn**
805.898.4365

**Dan
Ferrick**
805.898.4371



**Toni
Floyd**
805.898.4369

**Caitlin
Hensel**
805.898.4374

**Liam
Murphy**
805.898.4385

**Kristopher
Roth**
805.898.4361

**Nolan
Tooley**
805.898.4383

**Dylan
Ward**
805.898.4392

COMMERCIAL REAL ESTATE
& INVESTMENT SERVICES
SINCE 1993 DRE #02017017



HayesCommercial.com
222 E Carrillo St, Suite 101
Santa Barbara, California