



COMMERCIAL SALES: An Unseasonable Lull

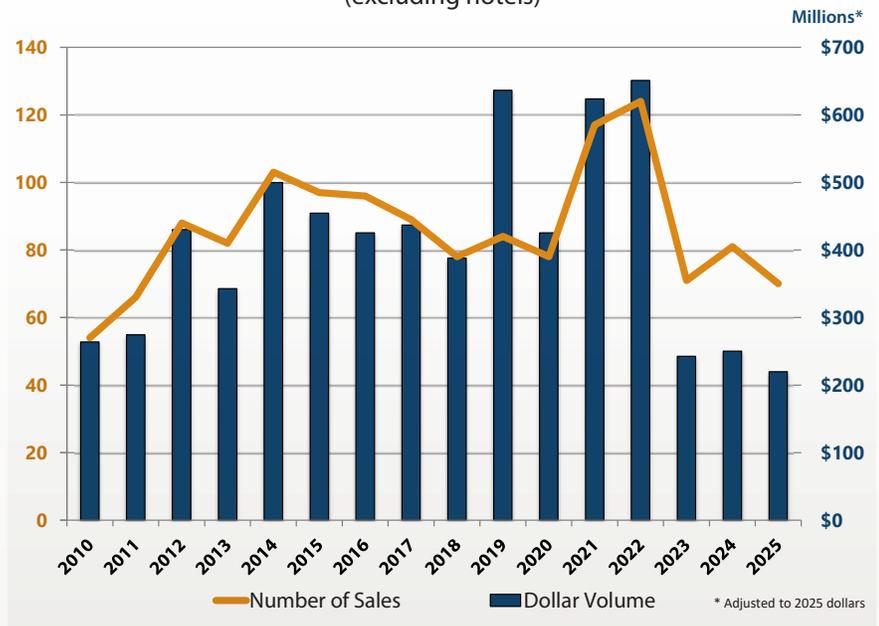
South Coast commercial sales activity was unseasonably modest in the final quarter of 2025, as demand continued to be both highly selective and sensitive to price. In most years, Q4 produces the highest dollar value of the four quarters, yet the Q4 transactions in 2025 totaled just \$44.3 million (excluding hotels), a 74% decrease from the 5-year average of \$171 million. The 17 sales completed in Q4 represented a 6% decrease from the 5-year average.

For the year, 70 transactions closed totaling \$220 million in value, both of which are the lowest totals in at least 14 years. To provide context, 2025 was the third consecutive year of relatively low sales activity, triggered by a sequence of interest rate hikes by the Fed in 2022. Compared to recent historical results, the last three years have been characterized by:

- Lower transaction velocity and dollar volume overall
- More selective investor demand and activity
- Dramatically lower demand and activity in higher price ranges
- Relatively stable demand and activity in lower price ranges

To illustrate the price-range dynamic, the graph on the next page shows the combined value of sales up to \$5 million vs over \$5 million. For the past three years, the value of sales in the higher price range has been strikingly low and totaled only \$85 million in 2025. Meanwhile, the \$135 million combined value for sales below \$5 million was on par with the 10-year average.

South Coast Sales (excluding hotels)



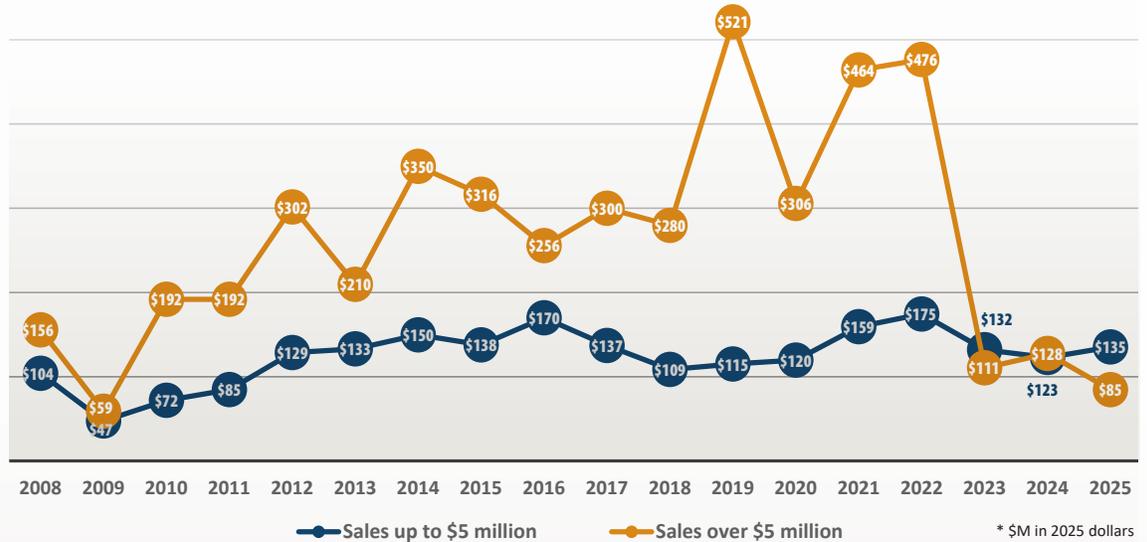
The large gap between transactions (orange curve) and volume (blue bars) indicates that the average sale price was much lower in the last three years.



530 Chapala St & 25 W Cota St in downtown Santa Barbara were acquired by an investor in Q4 for \$11.5M.

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

Splitting sales into two buckets based on price illustrates the dramatic impact that interest rate increases in 2022 have since had on sales over \$5 million, shown in orange. By comparison, sales up to \$5 million, shown in blue, have held steady.



This sustained period of relatively high interest rates has disproportionately hindered higher-price property sales by limiting buyers' ability (or inclination) to underwrite larger loans. Uncertainty over future revenue from large office and retail properties is another factor contributing to investor caution toward high-dollar acquisitions, especially those without long-term tenants in place. Finally, South Coast sellers of high-value properties often have the capitalization and resources to be patient if offers aren't emerging near their target price. As a result,

this segment has seen a pricing gap between sellers and buyers much less apparent in the lower price range.

Who's Buying

Investors were less visible in 2025, making only 31 acquisitions valued at \$129 million, the lowest dollar volume in over ten years. For the sales involving conventional financing, the average estimated interest rate on the primary loan was 6.7%. In one case, a property purchased in 2025 with 6.5% financing had previously been purchased in 2021 with 2.8% financing, which was about average for that year. In the time span from 2021 to 2025, the average cap rate for our market only increased from 5.1% to 5.6%. In other words, investment prices have come down a bit, but not nearly as much as interest rates have increased, leaving leverage buyers with a more challenging path to an acceptable return on investment. Among the 6 investor sales in Q4, the most significant was 530 Chapala St and 25 W Cota St, adjacent buildings totaling 20,000 SF that traded for \$11.5 million.

Owner-user buyers continued to be a durable source of demand, completing half of the sales in 2025. Their \$91 million in sales volume represents a 25% rebound from



The 16,900 SF office property at 2020-2024 De La Vina St in Santa Barbara was purchased by a local investor in Q4 for \$4.75M.

the 2024 total. The one notable Q4 owner-user sale was 3.4 acres of land on Patterson Avenue, purchased by Goleta Valley Professional Buildings for \$6.3 million. This was one of only three owner-user sales over \$5 million during 2025, as this buyer segment remains most active in the lower price range.

Off-market sales were more prevalent in 2025, comprising 49% of the transactions and 64% of dollar volume, surpassing the prior two years in both metrics. This reflects the continuing presence of focused and motivated buyers and sellers, making deals happen despite sluggish market dynamics. The year's standout off-market deal was the \$15.8 million sale of the 42,600 SF flex building at 326 Bollay Dr in Goleta.

Property Types

Office sales numbered 23 transactions in 2025, totaling only \$78 million, which is 47% below the 5-year average dollar volume. Price sensitivity was glaringly evident as only two office sales above \$5 million closed during the year. As changes in work habits have reduced overall demand for office space in recent years, value-add investors and developers have been buying older or underutilized office properties with plans to convert them to other uses. Two relatively large properties were purchased in 2025 which could end up repurposing about 40,000 SF of office space. One is the Fielding Graduate University property at 2020-2024 De La Vina St, purchased for \$4.75 million. The other is 114 E Haley St, bought by an investor for \$5.8 million with plans to convert the building to a hotel.

Industrial was the only property type with above-average dollar volume in 2025, posting sales value 4% above the 5-year average. Four of the year's 19 transactions closed in Q4, including the 19,900 SF building at 1025-1029 Cindy Ln in Carpinteria, acquired by an investor for \$4.49 million. Industrial continues to be a desirable asset type for both investors and owner-users, but opportunities to buy remain limited on the South Coast, with the number of marketed properties typically in the single digits.

There were no **retail** property sales in Q4, leaving the year's transaction count at 17, a 32% decrease from the 5-year

average. Notable retail sales earlier in the year included 901 State St which was acquired by Music Academy of the West for \$10 million, and 132 Santa Barbara St which was purchased by the ownership of Rusty's Pizza for \$6.8 million. All told, retail dollar volume was limited to \$53 million, which is 44% below average.

Four **hospitality** properties sold totaling \$122 million, all in the second half of the year. Most of the volume resulted from the \$82.2 million sale of the El Encanto Hotel in July. Two of the sales closed in Q4, including the Simpson House Inn on 0.8 acres at 121 E Arrellaga St which traded for \$9.5 million.

Commercial **land** sales were a rarity in 2025 with just 5 sales valued at \$18.3 million. The lone Q4 land sale was the year's largest: the previously noted \$6.8 million purchase of 3.4 acres at 455-465 Patterson Ave by Cottage Hospital. While we don't include residential-zoned land in our commercial transaction data, there were several sales of potential housing development sites, notably 10.5 acres zoned for high-density residential at 7190 Hollister Ave in Goleta, which traded off-market for over \$15 million.

Looking Ahead

Lackluster sales in Q4 paused the modest signs of recovery that were evident in Q2 and Q3 and undercut the momentum our market typically carries into a new year, but there are still fundamentals in place to support



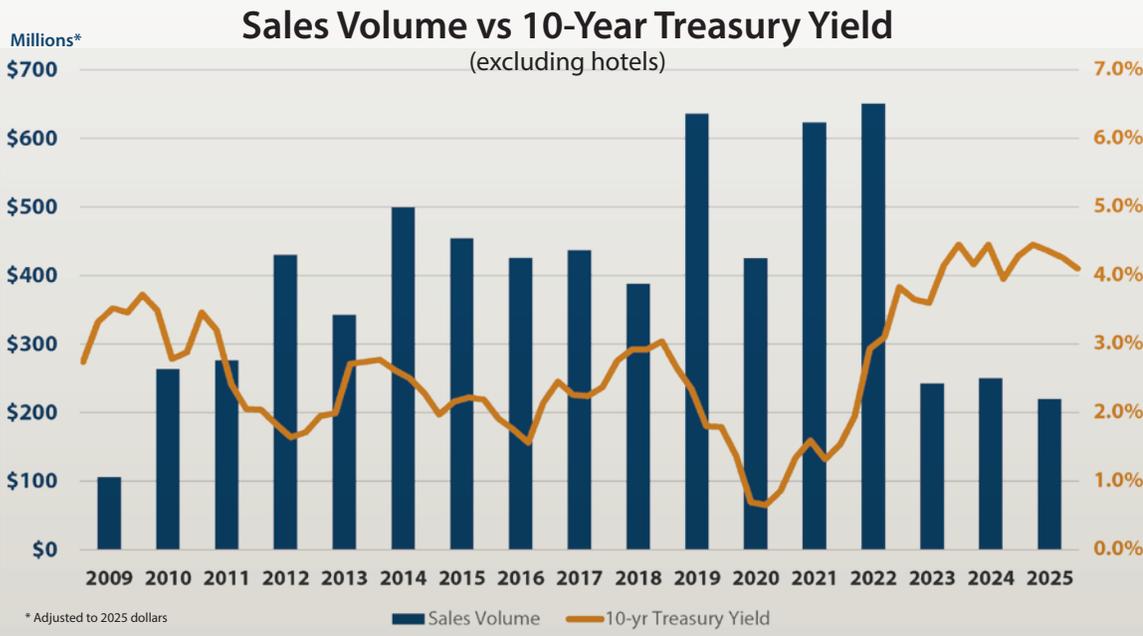
1025-1029 Cindy Ln in Carpinteria is a 19,900 SF industrial/office building purchased by an investor during Q4 for \$4.49 million.

cautious optimism. Relatively high interest rates have acted as a throttle on the South Coast sales market for three years, contributing to a stubborn disconnect between many sellers' expectations and the financing realities faced by buyers. These conditions have prevailed long enough to bring wait-and-see sellers to the reality that higher interest rates are sticking around. Investors are by necessity more selective, especially toward high-priced acquisitions, favoring quality assets with estab-

lished income or properties with clear upside potential. However, the prevalence of off-market transactions, certain properties attracting multiple offers, and other intangible activity suggest there may be more latent demand than the 2025 results indicate. Perhaps in 2026 more sellers will meet that demand as they adapt to the new normal. In fact, we are aware of promising deals in progress that will likely bear fruit in Q1 and bring a strong start to 2026.

COMMERCIAL SALES OVER \$5 MILLION (excluding hotels)

Address	City	Property Type	Quarter	Sold Price	Bldg SF	Land SF	Buyer Type	Market Status
111 E Victoria St	Santa Barbara	Medical	3	\$21,513,000	19,597	11,761	Investor	Market
326 Bollay Dr	Goleta	Industrial/Office	2	\$15,800,000	42,611	111,078	Investor	Off-Market
530 Chapala & 25 W Cota	Santa Barbara	Office/Retail	4	\$11,570,000	21,007	10,019	Investor	Market
901 State St	Santa Barbara	Retail	2	\$10,000,000	18,106	6,970	Owner-User	Off-Market
132 Santa Barbara St	Santa Barbara	Retail	3	\$6,875,000	10,000	16,117	Owner-User	Market
455-465 S Patterson Ave	Goleta	Land	4	\$6,285,000		147,599	Owner-User	Market
114 E Haley St	Santa Barbara	Office	2	\$5,800,000	21,470	28,984	Investor	Market
5580-5590 Hollister Ave	Goleta	Retail	2	\$5,500,000	2,069	63,162	Investor	Off-Market
35 Anacapa St	Santa Barbara	Land	3	\$5,050,000		22,216	Investor	Off-Market



The 10-year Treasury Yield curve in orange generally matches trends in real estate interest rates. While interest rates aren't the only factor affecting commercial sales volume, the correlation between the treasury yield and sales volume has been pronounced during the past six years.

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OFFICE LEASING

Office leasing in Q4 did not match the heavy dealmaking seen in Q3, but overall, 2025’s activity was on par with recent years. Average achieved rents are as high as we have ever seen, and South Coast gross consideration of \$92 million in 2025 was 27% above average.

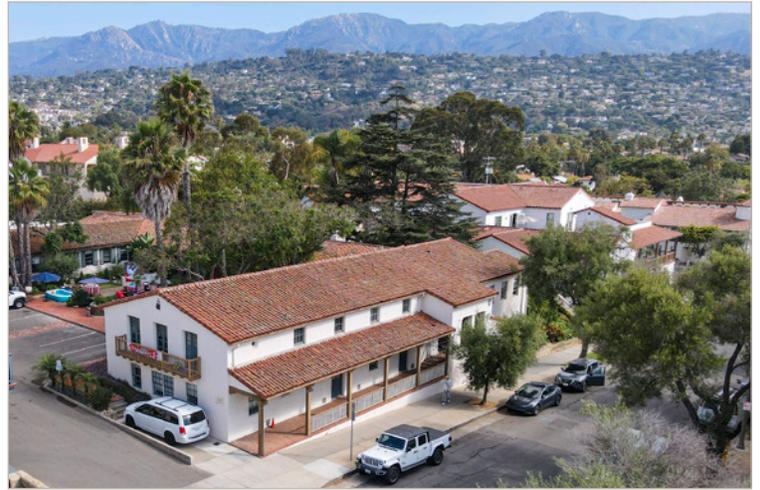
Five years on, predictions made during the pandemic that remote work would permanently decimate the office sector have not borne out. However, there has been a contraction in the size of offices, and we have noted many tenants choosing smaller spaces as they approach their lease terms. The median South Coast office space leased in 2025 was 9% smaller than in 2019. And yet, the demand for “right-sized” space is often coupled with demand for higher quality, and tenants typically pay more per square foot if they move to smaller suites, which mitigates the overall economic impact of downsizing on property values. Several South Coast landlords have found success in recent years by carving large vacancies into smaller spaces and investing in high quality finishes, thereby bringing their product in line with current demand.

Santa Barbara

Santa Barbara saw a significant 19% contraction of available space during 2025, landing at 8.4% vacancy at year-end. Setting aside the speculative office scenario in Paseo Nuevo’s former Nordstrom building, the vacancy rate is 6.3%, the lowest it has been since mid-2020. The decrease in inventory resulted from 172,000 SF of gross absorption in the latter half of the year, combined with a tapering of new space coming to the market.

Notable Q4 2025 Office Leases

Address	Market City	Sq Ft	Transaction	Tenant
136 W Canon Perdido St, 200	Santa Barbara	4,502	Renewal	Edward Jones & Co
820 State St, 501	Santa Barbara	4,790	Lease	Mission Wealth Management
800 Miramonte Dr, 320	Santa Barbara	6,447	Renewal	Flueid Software
223 E De La Guerra St, A	Santa Barbara	6,799	Lease	Harrison Design California
125 Cremona Dr, 220	Goleta	4,181	Lease	Lucidean
27 Castilian Dr	Goleta	8,975	Renewal	Biond Photonics
125 Cremona Dr, 110, 120-A	Goleta	23,458	Renewal	True Digital Surgery



Q4 leases totaling 11,100 SF by Harrison Design and The Santa Barbara Independent leave 223 E De La Guerra St fully occupied.

Two leases backfilled the entire building at 223 E De La Guerra St, formerly occupied by Impact Tech. The new tenants are the architecture firm Harrison Design, which claimed 6,800 SF and The Santa Barbara Independent which leased 4,300 SF. There has been a flurry of leases in one of Santa Barbara’s tallest buildings, 820 State St, where the July lease of 3,600 SF on the fifth floor by Scalable Commerce was followed by three Q4 leases: Autocamp signed a month-to-month lease for 6,300 SF on the third floor; Central Coast Community Energy leased 2,600 SF on the fourth floor; and Mission Wealth Management leased 4,800 SF on the fifth floor.

Renewals were less pronounced in 2025, but in Q4 Flueid Software optioned its 6,500 SF space at 800 Miramonte Dr for more 5 years, while Unwrap renewed its relatively new office at 419 State St. Edward Jones exercised a 10-year option to stay put at 136 W Canon Perdido St.

Among notable new availabilities, the 18,000 SF that Ontraport vacated at 2030 Alameda Padre Serra is now on the market. Also, 14,000 SF on the upper floors of 21 E Victoria St are offered, formerly occupied by Green Hills Software. 430 Chapala St has 8,600 SF available, most of which was freed up by Harrison Design in its move to 223 E De La Guerra St. The number of available spaces has decreased to 60, the lowest inventory in 10 years.

Goleta

Goleta's office market exhibited strong demand and retention from engineering, technology and bioscience tenants in 2025, as vacancy whittled down to 5.2% at yearend, nearing the lowest rate we have on record (4.9%). Q4 proved to be the year's least active quarter, however, with only 6 transactions, including three renewals and one expansion. Notable among these were the 23,450 SF renewal by True Digital Surgery at 125 Cremona Dr, and 9,000 SF renewed by Biond Photonics at 27 Castilian Dr. The largest new lease was 4,200 SF at 125 Cremona Dr by Lucidean, which makes optical connection systems for data centers.

Half of the transactions in 2025 were renewals, and this tenant retention resulted in relatively low turnover and fewer new spaces coming to market. With low vacancy and healthy demand—plus UCSB setting up an engineering collaboration facility in 105,000 SF of space it leased at 71 S Los Carneros Rd—Goleta's future as a thriving technology hub has never looked brighter.

Carpinteria

Thanks to one huge lease in Q3, Carpinteria's office market produced one of its highest annual gross absorptions in memory. The standout transaction was the 10-year signing by PlanMember Services for 42,400 SF on the bluffs at 6267 Carpinteria Ave. Otherwise, leasing was relatively limited with 4 other transactions totaling about 15,000 SF. The only Q4 lease was 2,000 SF at 1145 Eugenia Pl signed by the Alzheimer's Association. The vacancy rate at year-end was very lean at 3.6%. However, it's worth noting that the 35,850 SF building that PlanMember Services' is leaving at 6185 Carpinteria Ave is for sale and will be fully vacant by May.



The largest retail lease of 2025 was the 25,348 SF building in Goleta's Fairview Shopping Center, signed by the Picklr pickleball club.

RETAIL LEASING

It proved to be a strong year overall for retail leasing with 83 transactions completed, which marks four consecutive years with more than 80 retail signings on the South Coast. The combined vacancy rate of 2.8% is the lowest since 2016.

The year's largest retail lease was signed in Q4 as The Picklr reinvented the 25,348 SF former Bed Bath & Beyond building, bringing an indoor pickleball club to Goleta's Fairview Shopping Center. This is an example of the prevalence of fitness concepts in the current retail property market, resulting in 11 leases totaling over 50,000 SF in 2025, plus multiple other requirements actively seeking space.

State Street's downtown storefront vacancy rate drifted upward 14.5% at year end, nearing the 5-year high. The number of vacant spaces along the 400 to 1300 blocks has been very consistent, ranging from 31 to 37 for the past five years. However, recently the concentration of vacancy has shifted from the middle blocks near Paseo Nuevo beachward to the 400 to 600 blocks, where vacancy has doubled to 20% over the past 18 months. The 400 block is the most beleaguered stretch with 7, or one quarter, of the storefronts either vacant or available. This is a rough introduction to the State Street retail corridor for visitors and pedestrians coming up from the beach.

The long-awaited downtown master plan may finally arrive in 2026, which has the potential to provide more clarity for tenants and landlords trying to make informed decisions and, hopefully, will help alleviate some of the vacancy blight the corridor has suffered since 2018. Heated debate roils on many fronts, though a near consensus has emerged in support of more housing downtown, and the City has been actively taking steps toward that end.

The 16 transactions on the downtown corridor during 2025 is a solid count, though lower than either of the prior two years. Of the 4 transactions in Q4, the most sizeable was the 7,000 SF former Backstage space at 409 State St leased by Son Y Sabor. Cuso’s Bikes leased 609 State St, a short move from their prior location at 619-A State St. Kariella launched as a clothing pop-up in the former Vuori at 833 State St for about 10 months before signing a two-year lease on the space in October. A sublease at 1218 State St will bring The Grand on State to the restaurant space in the theater district, previously home to Namaste Indian Bistro.

Recent additions to Santa Barbara inventory include the Mesa Center at 1900-2300 Cliff Dr which now has 14,100 SF available, including a junior anchor space. The closing of Habitat at 400 State St brought 8,000 SF to the market downtown, and several small spaces including a restaurant with patio are available in the remodeled building at 801 State St, a prominent location in Paseo Nuevo.

In Goleta, the vacancy rate is relatively high at 2.7%. Available space is heavily skewed toward the eastern areas of the city, with 90% of the vacant square footage currently clustered east of the airport. Fairview Center and

Calle Real Center combined have 52,000 SF available, even after the Picklr lease absorbed 25,350 SF. In Isla Vista, Via Real Physical Therapy leased a 1,900 SF former deli space at 6530 Seville Rd in Q4. Isla Vista still has six vacancies, which is more than usual. The other Q4 lease was in Old Town, where Hollister Barber Shop signed 2,500 SF next to Old Town Coffee at 5879 Hollister Ave.

INDUSTRIAL LEASING

Despite relatively strong deal flow in Q4, South Coast industrial leasing finished the year with 294,000 SF of gross absorption, which is 19% below average, and a larger percentage decrease than either the office or retail sectors.

Industrial inventory in **Goleta** has been on the rise and ended the year above 4% vacancy for the first time since 2020. There are five available spaces larger than 20,000 SF, which have all been on the market for over a year, except for the 33,400 SF sublease offering at 440 Rutherford St. Gross absorption of space in 2025 landed about 20% short of the 5-year average. However, the annual average achieved rent exceeded \$2.00 per SF gross for the first time on record, as nearly one third of transactions achieved rent above \$2.50 per SF gross. The standout lease in Q4 was 21,400 SF at 93 Castilian Dr signed by Yasasan on a 5-year term.

In **Santa Barbara**, the lease of 6,750 SF at 129 S Quarantina St by Desco Industries was the largest of the three Q4 deals, and a rare highlight in a year that produced only 12 transactions. Gross absorption was 56% below the 5-year average, as the average size of space leased was also

Notable Q4 2025 Retail Leases

Address	Market City	Sq Ft	Transaction	Tenant
609 State St	Santa Barbara	2,200	Lease	Cuso’s Bikes
1218 State St	Santa Barbara	2,565	Sublease	The Grand on State
833 State St	Santa Barbara	2,918	Lease	Kariella
212 Anacapa St	Santa Barbara	3,368	Renewal	32 Bar Blues
409 State St	Santa Barbara	7,092	Lease	Son y Sabor
5879 Hollister Ave	Goleta	2,538	Lease	Hollister Barber Shop
191 N Fairview Ave	Goleta	25,348	Lease	The Pickler Santa Barbara

well below trend. Rents achieved in 2025 ranged widely from \$1.70 to \$4.13 per SF gross, as size, use, and location resulted in large variance. The average achieved rent of \$2.67 per SF gross matches the high mark established in 2024. Santa Barbara’s perennially slim industrial vacancy notched down to 1.6% at year-end from the record “high” of 1.8% posted in Q3.

Carpinteria saw three industrial transactions in Q4, including a 18,700 SF renewal by Productive Robotics at 1035 Cindy Ln and a 11,675 SF lease by ProHealth at 1025 & 1029 Cindy Ln. These deals helped tighten the vacancy rate to 4.6%, slightly below the historical average and down from 6.0% at midyear. More than half of the available space is 34,400 SF at 6395 Cindy Ln offered for sublease by Soli Organics.



ProHealth leased 11,675 SF at 1025-1029 Cindy Ln, a property which was concurrently purchased by a 1031 Exchange investor.

Notable Q4 2025 Industrial Leases

Address	Market City	Sq Ft	Transaction	Tenant
129 S Quarantina St	Santa Barbara	6,759	Lease	Desco Industries
93 Castilian Dr, 1st Fl	Goleta	21,400	Lease	SB Tile & Stone
1025-1029 Cindy Ln	Carpinteria	11,675	Lease	ProHealth
1035 Cindy Ln	Carpinteria	18,700	Renewal	Productive Robotics

LEASING MARKET DATA

	Market	Vacancy Rate		Transactions		Gross Absorption (SF)		Achieved Rent (PSF GR)	
OFFICE	Santa Barbara	8.4%	-19%	93	-3%	292,934	-2%	\$3.15	-6%
	Goleta	5.2%	-15%	36	+0%	345,637	+37%	\$2.37	+6%
	Carpinteria	3.6%	-81%	5	+150%	55,981	+1287%	\$3.33	+47%
RETAIL	Santa Barbara	2.8%	-16%	61	+0%	127,634	-8%	\$4.38	+10%
	Goleta	2.7%	+2%	14	-13%	54,265	+61%	\$3.90	+20%
	Carpinteria	4.1%	-23%	8	-20%	9,376	-46%	\$3.57	-24%
INDUSTRIAL	Santa Barbara	1.6%	+28%	12	-20%	36,615	-36%	\$2.67	+37%
	Goleta	4.3%	+38%	19	+19%	182,653	-28%	\$2.01	+15%
	Carpinteria	7.3%	-37%	6	-14%	74,349	+23%	\$1.40	+24%

Change percentages are compared to 2024 values.

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