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2026**Q2**
Market Report
South Coast Commercial Real Estate

COMMERCIAL SALES: The Big and the Small

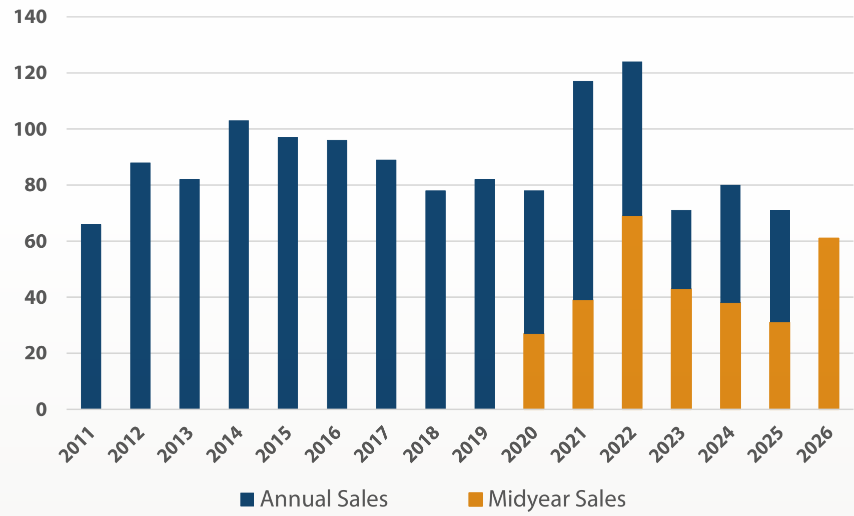
The first half of 2026 produced one of the highest-volume periods the South Coast has seen with 62 transactions and $413 million in non-hotel value — both midyear figures surpassed only by the 2022 boom. But the large majority of that strength traces to one extraordinary Q1 event: the $235 million Tech Park portfolio sale in Goleta. And secondarily, the $56 million sale of The Post retail project in Santa Barbara, also in Q1, was a standout transaction. Setting aside those two deals, the midyear non-hotel volume of $122 million is on par with the lackluster level seen over the past three years.

Notwithstanding the blockbuster Q1 sales, the background trend is above-average transaction velocity at below-average prices. The activity in Q2 underscored the point, producing 24 transactions totaling just $57 million, with only one deal above $5 million. By comparison, Q2 of 2025 yielded 20 sales worth $74.6 million and included four sales above $5 million. The encouraging signal is not deal size but the increase in buyers and sellers in the market.

The Tech Park Portfolio in Perspective

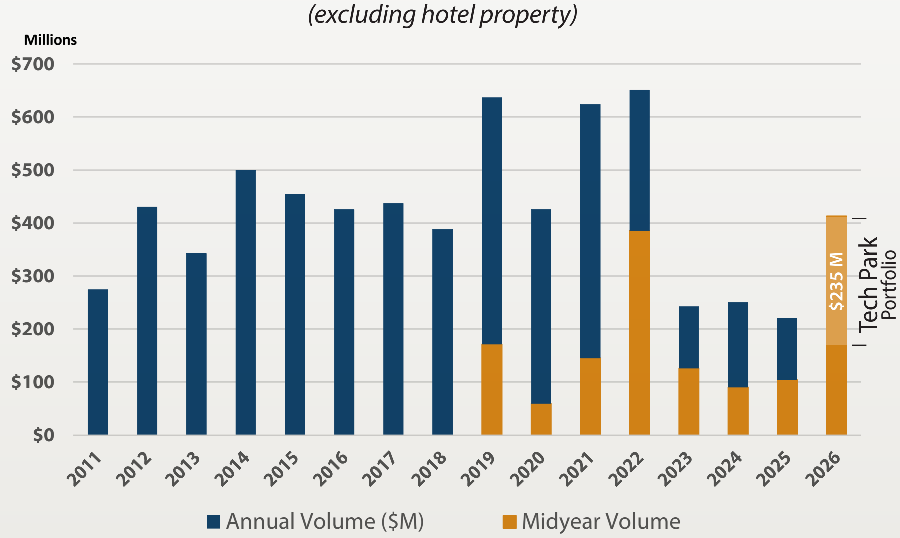
We covered the sale in detail in our Q1 report, but its scale bears repeating. Majestic Asset Management's sale of its five Goleta campuses — about 733,000 SF of R&D, flex, and office space recorded across 12 transactions — closed off-market at $235 million, or roughly $320 per SF, to Praelium Commercial Real Estate. Setting aside prior sales of the Bacara Resort, it was the largest commercial transaction on record for our region. Majestic stays on as property manager, serving tenants such as Lockheed Martin, Redwire Space, Umbra Space, and True Digital Surgery.

South Coast Commercial Sales Transactions



At midyear there were 61 sales (including 11 Tech Park sales), compared to the 5-year average of 43 sales.

South Coast Commercial Dollar Volume
(excluding hotel property)



Midyear non-hotel volume was $413 million (including $235M Tech Park portfolio) versus the 5-year average of $170 million.

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Santa Barbara Plastic Surgery Center purchased 222 W Pueblo St for $4.8 million, the largest of four medical owner-user buys in Q2.

A deal of this size by an out-of-area institutional buyer is a profound endorsement of Goleta's tech and engineering corridor. But it is equally the result of a single operator with the vision, capital and patience to assemble a portfolio to meet demand on an institutional scale. It is therefore a singular event, at least in the near term, telling us more about national demand for technology campuses than about the pace and direction of the South Coast market generally.

Who's Buying

The clearest positive trend is renewed investor participation, albeit primarily in the lower price range. Investors made 34 of the 60 non-hotel purchases at midyear, about 60% above average, though this count includes 12 transactions comprising the portfolio. Outside the two Q1 blockbuster deals totaling $291 million, investor dollar commitment remained modest at $75 million.

Investor activity in Q2 skewed especially small, with no sales above $3.5 million. Transactions included the mixed-use property at 706–708 E Haley St ($3.3 million), the Karpeles building at 21–23 W Anapamu St ($3 million), the 38,800 SF industrial property at 111 S La Patera Ln in Goleta ($3 million), and well-located retail at 3948 State St ($2.5 million) and 315 Meigs Rd ($2.1 million) on the Mesa.

Like investors, owner-users were active well above their midyear transaction norm at 26 purchases (+45%), while their $47 million in volume held near the five-year average, reflecting steady, small-ticket buying. During Q2, medical users were active near Cottage Hospital, where Santa Barbara Plastic Surgery Center bought 222 W Pueblo St ($4.8 million), and Goleta Valley Professional Buildings bought 230 W Pueblo St ($2.9 million). Several other local businesses bought the buildings they occupy, including Bella View Windows & Doors at 3010 State St, Hayward Lumber at 324 E Haley St, Bowman's Automotive at 307 E Gutierrez St, and Husted Plumbing at 4859 Carpinteria Ave. In the quarter's only sale above $5 million, Friendship Manor purchased 701–711 N Milpas St off-market for $7.5 million.

One factor running counter to recent trend is the decrease in off-market transactions. Here again, the two Q1 blockbuster deals proved the exception, trading $291 million off-market. Setting the portfolio and The Post aside, about two-thirds of sales were on-market transactions. That is a notable reversal from midyear 2025, when roughly two-thirds of sales were off-market, and it is worth watching as a possible pivot toward the conventional dynamic where more sellers test the market openly, and the majority of sales are on-market.

Property Type Breakdown

- **Office and medical** led first-half volume at $211 million across 26 sales — double the midyear norm — but that dollar figure is almost entirely the Tech Park campuses. Excluding the portfolio's office properties, the remaining count still runs above average, driven by owner-user medical demand.

- **Industrial** posted 15 sales worth $78 million, compared to the recent average of eight transactions, though three Tech Park properties again supplied most of the dollar value. With only five industrial properties on the market, the constraint here is scarcity of inventory, not demand.

- **Retail's** 11 sales totaling $73 million came in slightly below the midyear transaction norm, with the dollar total almost entirely represented by The Post. Q2's retail deals were all under $4 million, including the $3.6 million purchase of the former Rite Aid building at 801 Linden Ave in Carpinteria by an owner-user, another example of a local business taking over a space vacated by a chain.

- **Land** contributed three sales ($32 million), led by two Milpas Street parcels bound for housing: 335 S Milpas St ($22.65 million), a proposed mixed-use redevelopment adjcacen to Tri-County Produce, and Friendship Manor's 701–711 N Milpas St, entitled for an 82-unit residential project.

- The **hotel** sales were PaliHouse and the the Franciscan Inn, totaling $35 million and signaling continued demand in the local hospitality sector.

Looking Ahead

The Tech Park sale delivered a one-time correction in the upper price range that our market has been sorely missing, resulting in a half-year dollar volume that will be hard to match. But it should be read as a unique event rather than a market-wide turn. Demand for high-value property remains extremely fickle. Nevertheless, the fundamentals show signs of modest improvement: excepting the portfolio, volume is about even with the midyear norm, transaction count sits above it, and both investors and owner-users are buying at above-average pace. The gap between buyer and seller pricing expectations continues to gradually converge, and for-sale inventory remains sufficient, aside from industrial property. Within that inventory, selectivity does the sorting: well-located, realistically priced assets trade quickly, while those needing repositioning or carrying aspirational asking prices sit longer.

Nationally, the commercial narrative remains fixed on office distress and softening values; the South Coast continues to diverge, its constrained supply and quality assets drawing willing buyers even in a cautious market. Q2's subdued result is the necessary reality check — portfolio aside, this remains a selective, rate-constrained market where the deals getting done are mostly small. But with investors re-engaging and the underlying market showing more willingness to transact openly, conditions may favor a modest rebound from Q2's limited dollar volume in the second half of the year.

OFFICE LEASING

South Coast office leasing continued the recent trend with tenants generally seeking higher-quality and smaller spaces than before the pandemic. However, a handful of large renewals in Goleta during Q1 drove hefty total absorption of 431,000 SF at midyear, roughly a third above the five-year average. The combined midyear transaction count of 63 leases marked an increase from a year ago but was below the five-year trend. Achieved rents ascended to new heights, while overall vacancy tightened to 6.3%, the lowest level the South Coast has seen since 2020.

Santa Barbara

Santa Barbara recorded 43 office leases at midyear, up slightly from last year's unusually low count but still about 30% below the five-year average. Gross absorption landed 17% below trend at 142,000 SF. Leasing tempo picked up a bit in Q2, yielding 24 transactions, but the average space size was about 500 SF smaller than the five-year average. Half of the ten largest leases were renewals, including 7,451 SF at 530 E Montecito

530 E Montecito St in Santa Barbara is fully leased after City Net leased 4,225 SF and Lion Re:Sources renewed 7,451 SF.

St retained by Lion Re:Sources and 5,092 SF at 200 E Carrillo St by Stantec Consulting.

New commitments signed in Q2 included 5,130 SF at 530 E Montecito St by the nonprofit City Net, 4,225 SF at 2034 De La Vina St by Converged, and a cluster of finance and professional tenants downtown: Colliers International (3,410 SF at 820 State St), Cresset Capital (3,189 SF at 1014 Santa Barbara St), and Framepoint Partners (2,600 SF at 8 W Victoria St).

Since the former Nordstrom shell space at 817 State St has been approved for multifamily redevelopment, 112,000 SF on the upper floors is no longer included in office inventory. Without that space, Santa Barbara vacancy has been stable, ranging from 6.3% to 6.9% over the past 12 months. The largest recent addition to the market is 10,700 SF in the Lyon Building at 27 E Cota St. Looking ahead, two significant downtown spaces are under negotiation, which could bring vacancy down considerably during Q3.

Goleta

Goleta's heavy leasing generated 289,000 SF of absorption at midyear, nearly double the five-year average. However, the total is dominated by large renewals, above all Lockheed Martin's 111,600 SF of Q1 commitments negotiated alongside the Tech Park ownership change. Deal count proceeded 23% above average with 20 transactions at midyear, evenly split with 10 in each quarter. Retention was again the theme, with 13 of 20 transactions being renewals. In addition to Lockheed Martin, long-tenured tenants such as Soraa Laser Diode (12,624 SF at 485 Pine Ave), Reaction 35 (10,250 SF at 861 Ward Dr), and Mechanics Bank renewed space.

7414 Hollister Ave is a 40,487 SF creative office building leased by Umbra Space in Q2.

The largest new lease was signed by Umbra Space, whose 40,487 SF Q2 lease at 7414 Hollister Ave extended the satellite-imaging company's footprint in Goleta's aerospace and defense corridor. This creative office building has been occupied by L3 Technologies and is next to Umbra's existing 49,275 SF warehouse/R&D space in 7418 Hollister Ave. Other new commitments included Sylux (11,777 SF on at 421 Pine Ave) and Community West Bank (9,161 SF at 420 S Fairview Ave).

Vacancy decreased to 5.8% at midyear, close to Goleta's historic lows. A 43,655 SF lease signed early in July at 50 Castilian Dr removes the city's largest office vacancy from the market and will likely result in a much lower vacancy by the end of Q3. Following that deal, the largest available spaces are 29,372 SF at 6500 Hollister Ave and 28,012 SF at 7402 Hollister Ave.

Goleta's achieved rents are as high as we've seen, averaging $2.67 per SF gross year-to-date. Goleta and Santa Barbara have both seen office rent growth in recent years, but Goleta's has increased along a steeper curve. For the ten-year period from 2014 to 2023, Santa Barbara's rents on average were 47% higher than Goleta's. Since 2024, Santa Barbara's average rent premium has narrowed to 31%. Much of this shift can be attributed to Goleta landlords actively investing in property improvements to attract new tenants at higher rents, and demand has generally held strong enough to reward these efforts.

Carpinteria

Carpinteria saw no office deals in either quarter, which is not unusual for this submarket that averages a handful of leases a year. Vacancy held at a lean 4.9%, down from 7.0% a year earlier and far below the double-digit rates of 2022 through 2024. The 35,850 SF building at 6185 Carpinteria Ave, vacated by PlanMember Services as it moves to a larger space on the bluffs, is for sale, and a local developer is reportedly under contract, contingent upon approvals to redevelop the property for multifamily use. If the plan proceeds, the conversion would pull a sizable building from office inventory.

RETAIL LEASING

South Coast retail remained a tale of two markets in the first half of 2026, but the gap between them narrowed. Neighborhood and daily-use centers stayed close to full, with overall vacancy holding near 3%, while Santa Barbara's long-struggling State Street corridor continued a gradual recovery that gathered force in the second quarter. Downtown storefront vacancy fell to 12.0%, its lowest level since before the pandemic, and in June the City approved a landmark redevelopment plan for Paseo Nuevo that promises to reanimate the South Coast's two most prominent vacancies.

Santa Barbara

The year's most consequential downtown news was the multi-party agreement to redevelop Paseo Nuevo itself. In June the City approved a framework in which Yardi will purchase the mall buildings and repurpose the former Macy's building for its new headquarters, while the former Nordstrom building will be converted to housing above ground-floor retail. The Yardi transaction closed in July, which will be detailed in our next report, but the resolution of these two long-empty anchors is a positive and promising development (literally and figuratively) for downtown. At the same time, the City appears poised to implement a permanent promenade on State Street. The vision remains controversial and important details need to be resolved, but having a finalized plan for the corridor, on top of the Paseo Nuevo changes, should truly bring the downtown core out of limbo. Furthermore, there are many encouraging improvements by owners and tenants either planned or in progress, including the Music Academy at 901 State St, the new music venue/

Free People leased the long-vacant space at 1036 State St, formerly Bank of the West.

restaurant at 330 State, and Sandbar's transformation at 514 State, to name a few.

State Street leasing saw a trio of large signings in Q1 by EōS Fitness, A Royal Suite Furnishings, and the Habitat ReStore. The corridor carried this momentum through Q2, which added six transactions. Notably, Free People took 4,632 SF at 1036 State St; Motion Training Collective leased 4,463 SF at 320 State St after outgrowing its Chapala Street space; Bombay Station 734 signed 2,933 SF at 734 State St; and (In)Larkin Clothing took over the Starbucks space at 1235 State St. These deals helped ease storefront vacancy on the 400 to 1300 blocks down to 12.0% at midyear, down from 14.5% at year-end. The absorption remains uneven by block, however. The 400 and 600 blocks are carrying vacancy above 20%, with the 400 block alone having seven available and/or vacant storefronts. There are positive signs on the 400 block, though: Jorge Salgado purchased 429 State St for his barber shop, the ReStore opens in August, and the recently-opened Manifattura restaurant continues to draw a crowd. Meanwhile, at the other end of the downtown core, storefront vacancy for the "theater and arts" stretch from the 1000 to 1300 blocks has tightened to 6.7%.

For Santa Barbara overall, transactions were 11% below the five-year norm, but gross absorption was up about

25%, boosted by the substantial Q1 leases on State Street. The Funk Zone saw just two leases, both in Q1, and had eight availabilities at midyear, notably high for this in-demand locale. The main cause seems to be lofty asking rents, which currently start at $5.50 per SF gross and proceed up beyond $10.00. By comparison, asking rents along the State Street corridor average about $3.95 per SF gross. Speaking of in-demand, Coast Village Road has no vacancy, and leasing was limited to one small signing at 1250 Coast Village Rd.

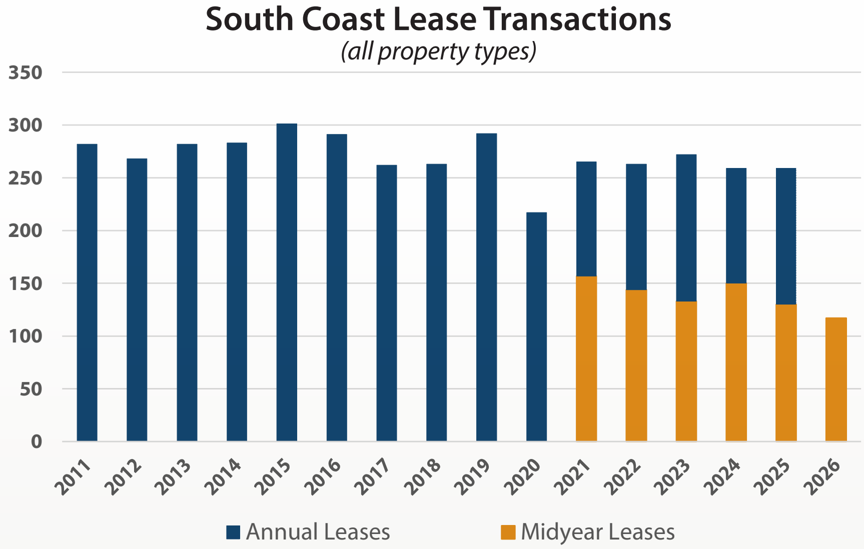
Goleta

Goleta saw eight retail transactions totaling only 17,100 SF at midyear, approximately 25% below the five-year average absorption. During Q2, Ashton Enterprises leased 7443 Hollister Ave, Killer B Fitness renewed at 5342 Hollister Ave, in addition to small leases by OG Jiu-jitsu and The Crafter's Library at 6529 Trigo Rd in Isla Vista. These followed a more active Q1 with new leases in Old Town by ASP Market Corp at 5777 Hollister Ave, Eddie's Grill at 5725 Hollister Ave, and a renewal by Batdorf Beverageworks at 5871 Hollister Ave. Goleta's vacancy tightened to 2.5% from 3.1% a year earlier, with available space still highly concentrated around the Fairview and Calle Real centers. One of the largest available spaces in that neighborhood, the 10,715 SF former SB Motorsports building at 5955 Calle Real, is pending approval for demolition and redevelopment to 46 residential units, which will understandably reduce the prospects of finding a large retail tenant.

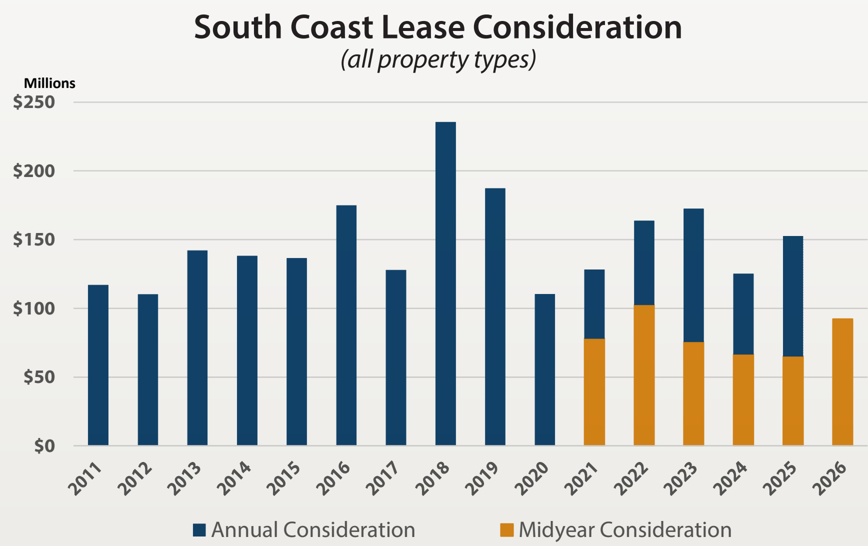
INDUSTRIAL LEASING

South Coast industrial leasing was exceptionally quiet in the first half of 2026, held back less by weak demand than by a persistent shortage of available space. The region logged just 15 industrial leases, down about a third from the five-year pace. Gross absorption of roughly 100,000 SF marked an even steeper drop of 50% from the five-year benchmark. The second quarter was slower than the first, and the two largest deals year-to-date closed in Q1. Even so, vacancy stayed very tight at 2.6%, down from 3.1% a year earlier.

Goleta accounted for nearly half of the region's modest absorption, taking up about 46,000 SF, though that was still well short of its five-year norm. The five transactions



Midyear transactions totaled 117, the lowest count since 2020 and 18% below the 5-year avg of 143.



Total lease value (or consideration) was robust at $92 million, a 19% increase compared to the 5-year avg of $78 million.

marks city's lowest midyear tally in at least 15 years. The three Q2 signings were Rabbit's renewal of 7,500 SF at 99 Aero Camino and two subleases: Dragon Q Energy took over 8,699 SF at 6860 Cortona Dr, and a private tenant subleased 4,290 SF at 53 Depot Rd. Surprisingly, available space contracted by 25% since the beginning of the year, as the vacancy rate decreased to 3.3% at midyear. The tightening of inventory owes partly to only two offerings coming to market to date in 2026, including 9,900 SF at 600 Ward Dr. Three of the four largest available spaces are offered for sublease, totaling 86,860 SF, meaning only 1.3% of Goleta industrial space is not generating income.

Santa Barbara's industrial market continued its perennial mode of minimal inventory and sparse leasing activity, which at midyear totaled six transactions covering 19,235 SF. Q2's four deals included 4,000 SF at 517 E Gutierrez St leased by Bob Jarrett Enterprises; 2,525 SF at 810 Bond Ave by Bicycle Transit Systems; and a renewal of 4,000 SF at 614 Santa Barbara St by the Varela Company. The largest Santa Barbara lease to date was the Q1 signing of 6,500 SF at 519 E Gutierrez St by San Luis Marble. Recent spaces added to the market are 11,535 SF for sublease at 436 E Gutierrez St and 5,617 SF at 820 E Ortega St. However, vacancy remains slight at just 1.5% with only nine spaces available.

Dragon Q Energy's sublease of 8,699 SF at 6860 Cortona Dr in Goleta proved to be the largest industrial signing of Q2.

Carpinteria was the one market city to hold near its normal pace, with absorption of about 35,000 SF on the strength of a few larger deals, both in Q1: Dakar's 19,400 SF renewal at 1015 Cindy Ln, and Dune Coffee Roasters' 10-year lease of 8,200 SF at 6383 Rose Ln. In Q2, Templock Enterprises leased 5,000 SF at 6387 Rose Ln, while a private tenant signed 2,250 SF at 4188 Carpinteria Ave. There are just two remaining availabilities, both relatively recent additions to the market: 57,600 SF at 6395 Cindy Ln and 5,224 SF at 1115 Mark Ave.

LEASING MARKET DATA - MIDYEAR

	Market	Vacancy Rate		Transactions		Gross Absorption (SF)		Achieved Rent (PSF GR)	
OFFICE	Santa Barbara	**6.9%**	-19%	**43**	-8%	**141,985**	-3%	**$3.49**	+11%
	Goleta	**5.8%**	+12%	**20**	+11%	**289,400**	+67%	**$2.67**	+13%
	Carpinteria	**4.9%**	+35%	**0**	-100%	**0**	-100%	**na**	na
RETAIL	Santa Barbara	**3.0%**	+6%	**29**	-6%	**112,189**	+71%	**$4.17**	-5%
	Goleta	**2.5%**	-8%	**8**	+14%	**17,106**	-37%	**$2.90**	-26%
	Carpinteria	**3.1%**	+22%	**2**	-50%	**1,610**	-66%	**$2.03**	-43%
INDUSTRIAL	Santa Barbara	**1.5%**	-11%	**6**	0%	**19,235**	+5%	**$2.94**	+10%
	Goleta	**3.3%**	-25%	**5**	-47%	**45,883**	-50%	**$1.39**	-31%
	Carpinteria	**4.6%**	+3%	**4**	+33%	**34,850**	-6%	**$1.72**	+23%

Change percentages are compared to 2025 values, annualized where appropriate.

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