

COMMERCIAL SALES: Marquee Deals, Cooling Pace

The South Coast commercial market is on track to have one of the highest dollar volume years on record. Excluding hotels, the Q3 year-to-date total of $483 million represents the second-highest mark on record, surpassed only by the 2022 peak. Nevertheless, Q3 tallied below-average activity with just 15 sales totaling $69.7 million, and a single deal—Google's $32.5 million purchase of 147 Castilian Dr in Goleta—represented nearly half of the dollar value.

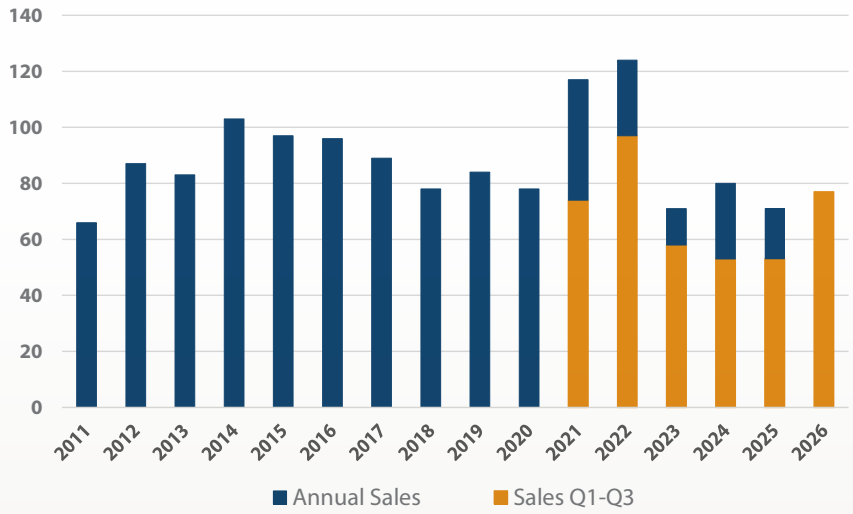
So far in 2026, the market has been segmented into two tiers, with most of the dollar value coming from a handful of transactions by out-of-area buyers in the first tier. The three largest deals (the $235 million Tech Park portfolio, the $56 million sale of The Post, both in Q1, now joined by the Google acquisition) make up 65% of the year-to-date volume. Setting aside those three deals, the remaining non-hotel volume of $160 million is in line with the subdued pace of the past three years. This second tier includes the large majority of the transactions and is weighted toward modest prices and local buyers.

The year-to-date tally of 77 sales is also above trend. However, transaction velocity has slowed quarter by quarter, from 38 sales in Q1 to 24 in Q2 to 15 in Q3. Even allowing for the portfolio's 12 sales early in the year, momentum is clearly cooling as interest rates continue to hinder ordinary buyers.

A New Chapter for Paseo Nuevo

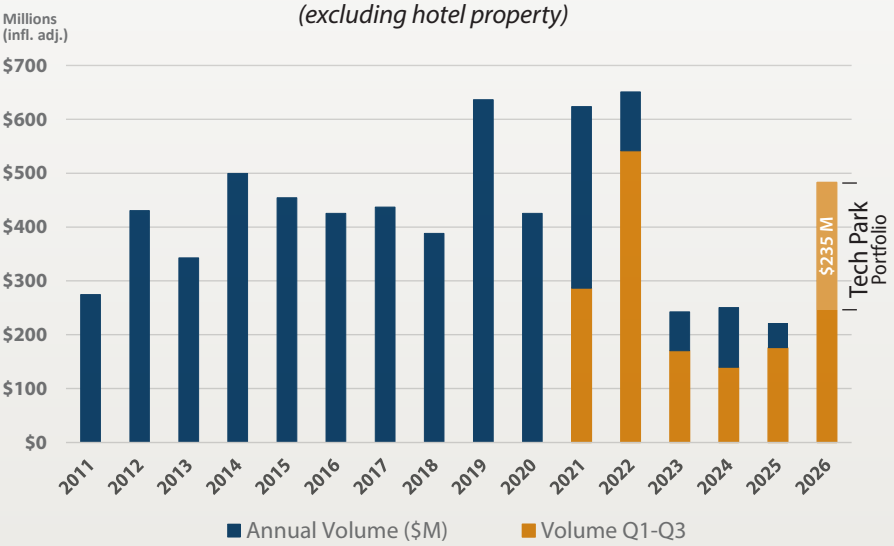
In a deal agreed upon earlier in the year, Yardi Systems' purchase of multiple Paseo Nuevo mall buildings closed during Q3, though pricing was not made public. The sale encompasses

South Coast Commercial Sales Transactions



Through Q3 there were 77 sales (including 12 Tech Park sales), compared to the 5-year average of 67 sales.

South Coast Commercial Dollar Volume
(excluding hotel property)



Non-hotel volume through Q3 was $483 million (including the $235M Tech Park portfolio) versus the 5-year average of $263 million.

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Google purchased the 83,374 SF campus at 147 Castilian Dr, a prime location at the corner of Los Carneros & Hollister in Goleta.

the approximately 135,000 SF former Macy's building plus multiple retail buildings in the mall totaling around 120,000 SF. The City conveyed the underlying land as part of the arrangement, which also involves Yardi Systems contributing $5.7 million to a local housing trust fund and the City's Downtown Plaza and Parking Program. This deal will relocate up to 600 employees to Yardi's new headquarters in the former Macy's building (following an estimated $100 million remodel), while returning most of the mall's buildings to local ownership. Combined with the planned conversion of the former Nordstrom building's upper floors to housing and the City's progress toward a permanent State Street plan, the Paseo Nuevo transaction promises to bring a much-needed boost of vitality to the downtown core.

Yardi Systems also purchased 715–719 State St for $3.7 million in a separate off-market transaction. The two-story, 10,361 SF property was under the same ownership for roughly 120 years and is next to Yardi's future headquarters.

Google Expands in Goleta

The quarter's defining transaction was Google's $32.5 million purchase of the 83,374 SF campus at 147 Castilian Dr, acquired off-market from Investec. The deal affirms that the company has found in Goleta the ecosystem that its most ambitious work requires: the physics and engineering talent gathered around UCSB, a quality of life that helps recruit and retain elite researchers, and a deep stock of R&D and flex buildings it can grow into, first by leasing and now by buying. With this purchase, Google's reported local footprint climbs past 325,000 SF of research, lab, and office space supporting its quantum-computing program.

A company that can lease space as needed does not typically buy unless it means to stay, so the acquisition suggests Google is embracing a long-term presence in the corridor. As with the Tech Park portfolio purchase by institutional investors earlier in the year, the Google deal reflects national technology capital planting roots in Goleta's engineering corridor, which speaks volumes about the gravitational pull of that specialized submarket.

Who's Buying

Reinvigorated investor participation remained the year's clearest positive trend, though the dollars are concentrated at the top. Investors accounted for 39 of the 75 non-hotel purchases year-to-date, well above the five-year average. However, setting aside the Tech Park portfolio and The Post, investor dollar commitment was a modest $96 million, spread across smaller deals. Owner-users were similarly active by count, completing 35 sales. Google's Q3 purchase represented a third of the $95 million in owner-user volume year-to-date. The other notable Q3 owner-user sale was Las Cumbres Observatory's $4.0 million purchase of 6780 Cortona Dr in Goleta. Aside from those deals (and the Paseo Nuevo transaction), owner-user sales held to the typical mode of local businesses buying modestly priced properties.

Off-market activity dominated the third quarter, representing 10 of the quarter's 15 sales, and 83% of dollar volume, including Google's deal, Kellogg Square, and Yardi's purchase of 715-719 State St. Nearly all the high-dollar activity so far this year has traded privately.

Property Type Breakdown

Office and medical led year-to-date volume at $222 million across 33 sales, roughly double the five-year

norm, but that dollar total is almost entirely the Tech Park campuses. Q3's office activity was limited to seven sales totaling $10.8 million, nearly all of it small owner-user and condominium product. Ideally, cap rates offer the best metric for how investors are pricing office, but we have limited data available, since so many of the investment sales traded off-market. The average asking cap rate for fully-leased office product is about 5.0%, while investors are generally underwriting for returns around 6% (with variation of course for location, building quality and potential rent growth). For perspective, the Tech Park portfolio traded at a blended cap rate of 6.1% in Q1.

Google's purchase of 147 Castilian Dr was the lone **industrial** sale for Q3, bringing the year-to-date totals to 16 sales worth $110 million. The constraint in this segment continues to be scarcity rather than weak demand: only seven industrial properties are currently listed for sale across the South Coast.

Retail was the quarter's most active property type by count, with six sales totaling $23.3 million (not including the undisclosed Paseo Nuevo sale). The largest was the $11.3 million sale of Kellogg Square, the multi-building retail center at 5555–5599 Hollister Ave and 320 S Kellogg Ave in Old Town Goleta, where the new owner plans to reinvest in the property while continuing its retail use. In Santa Barbara, across the street from the 715-719 State St sale noted above, a local owner-user bought 706 State St (long home to Antique Alley) for $1.4 million, and the gas station at 1935 State St changed hands for $3.3 million.

Land contributed a single Q3 sale: the vacant corner lot at 328 W Montecito St in Santa Barbara, which traded for $3.15 million, a substantial appreciation from its prior sale for $1.35 million in 2019. Though not yet entitled, the property is carrying a pending 12-unit residential development proposal which, combined with its proximity to SBCC, may have swayed the buyer.

Looking Ahead

With sales transactions slowing and a rising share of deals happening off-market, we would expect an increase in inventory on the market, which is exactly the case. Current offerings total 81 commercial properties across the South Coast, the highest count on record. A third of the inventory has lingered on the market for a year or more, as well-located, appropriately priced assets move and those carrying aggressive prices tend to sit.

The financing environment continues to play a major role in the current dynamic. The Federal Reserve raised its target rate to 3.75%–4.00% in September, a reminder that borrowing costs are still edging up rather than down, which reinforces both the market's selectivity and the slowing momentum evident in the quarterly counts.

The outsized dollar volume of the first half will not be matched in the second, and the cooling transaction trend points to a quiet finish to the year. Beneath the high-profile deals, the market is following the modest trajectory of the past three years, with demand constrained primarily by interest rates and focused on smaller deals.

On the positive side: supply is readily available, and pricing expectations between buyers and sellers are gradually converging. Google's acquisition is a reminder that Goleta has earned the attention of technology capital, as the Tech Park portfolio emphatically proved earlier this year. Finally, in keeping with the traditional seasonal pattern, there are signs that Q4 will provide an upswing in dollar volume compared to Q3.

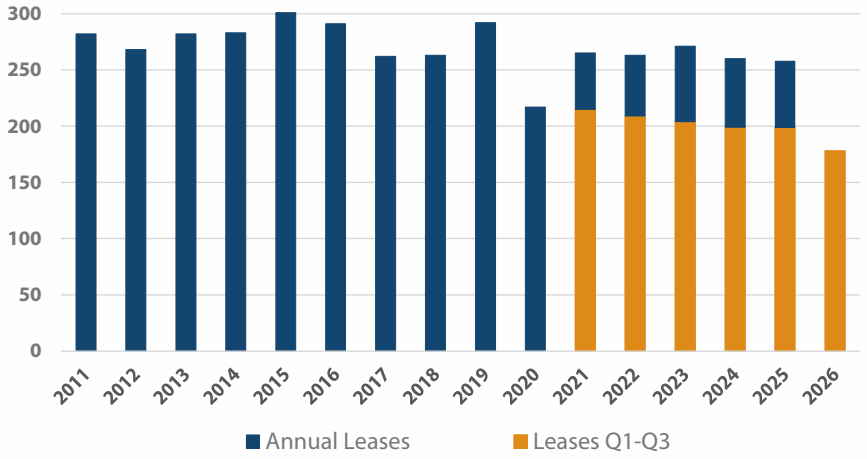


Purchased by an investor for $11.3M, the 30,278 SF Kellogg Square is perched at the east end of Old Town Goleta.

OFFICE LEASING

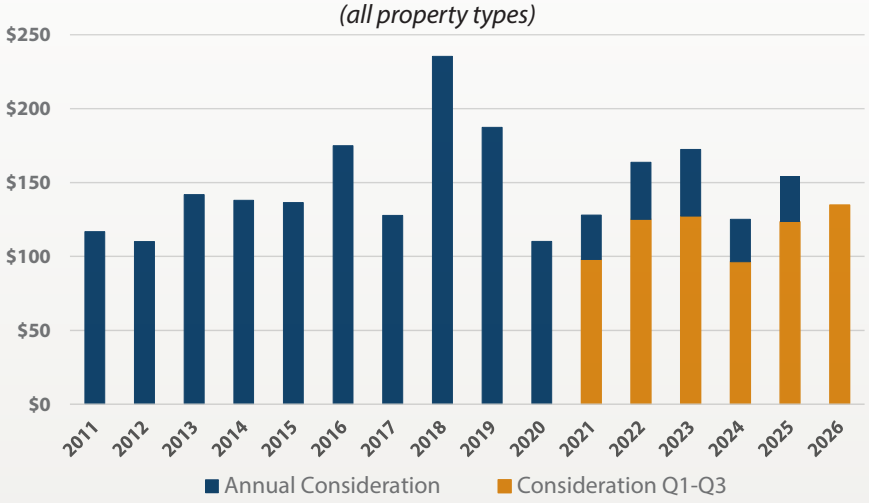
South Coast office leasing leaned heavily on Goleta in the third quarter, as Santa Barbara's activity was sparse and renewal-weighted, and Carpinteria saw no office deals at all. South Coast office vacancy has been stable and relatively low throughout 2026, ending Q3 at 6.4%. Year-to-date gross absorption reached 608,000 SF, outpacing the five-year average by 18%, with Goleta accounting for roughly two-thirds of the transacted space.

South Coast Lease Transactions
(all property types)



YTD Q3 transactions totaled 178, the lowest count since 2020 and 13% below the 5-year avg of 205.

South Coast Lease Consideration
(all property types)



Total lease value (or consideration) through Q3 was robust at $135 million, a 18% increase compared to the 5-year avg of $114 million.

Goleta

Goleta's 32 office transactions totaling 404,000 SF marked the strongest Q3 year-to-date activity in seven years. Third-quarter deals favored renewals and expansions by existing tenants. Magna Electronics renewed 14,059 SF at 420 S Fairview Ave, Sylux signed an 11,574 SF expansion at 421 Pine Ave, Google added 9,908 SF at 5425 Hollister Ave, and both UCSB Arts & Lectures and Aeluma expanded their footprints.

Two new leases stood out. Toyon Research leased 43,655 SF at 50 Castilian Dr, the former AppFolio building, on an eleven-year term, by far the quarter's largest lease and one that clears a major vacancy. And Quintessent leased 12,827 SF at 125 Cremona Dr, adding to nearby space it renewed at 120 Cremona Dr.

Even with the heavy leasing, vacancy held steady at 5.9%, as sizable blocks returned to the market, including 35,112 SF of former Cottage Hospital space at 6550 Hollister Ave. Achieved rents climbed to a year-to-date average of $2.64 per SF gross, a substantial step up from 2025's record-high annual average of $2.37. With this increase, the gap in average office rent between Goleta and Santa Barbara has narrowed from roughly 50% throughout the previous decade to 28% so far in 2026, a substantial shift that signals improving demand for Goleta office.

Santa Barbara

Santa Barbara's 63 office leases year-to-date were 18% below the five-year average, and Q3 was weighted toward professional-services tenants, while creative and tech users took a ping-pong break. The two largest deals of the quarter were both renewals at 200 E Carrillo St: the law firm Price Postel & Parma

committed to 11,837 SF on a ten-year term, and Investec Management renewed 7,675 SF. Law, finance, and medical users drove most of the new leases as well, including Fennemore Craig (2,557 SF at 1014 Santa Barbara St), Klein DeNatale Goldner (4,000 SF at 30 E Figueroa St), the accounting firm Clinkenbeard, Ramsey, Spackman & Clark (5,000 SF at 3938 State St), and Impact Family Office (2,640 SF at 809 Chapala St).

Vacancy finished Q3 at 6.9%, up slightly from 6.4% at the start of the year. The rate has held between 6.3% and 6.9% over the past year. Achieved rents rose to a year-to-date average of $3.38 per SF gross, a new high, though the gain reflects an unusually large share of medical suites and smaller offices under 2,000 SF, which typically carry higher per-foot rents. The market's two largest available blocks remain the former Sonos buildings at 600-614 Chapala St (33,836 SF of creative office) and 25 E Mason St (32,829 SF of office/R&D in the Funk Zone).

Carpinteria

Carpinteria's complete lack of office transactions this year is unusual, even for a city that typically sees only a handful of deals annually. Vacancy drifted up to 5.7% from 3.6% at the beginning of the year, with the largest availability being a new sublease offering of 10,429 SF at 4180 Via Real. However, vacancy will rise dramatically in Q4 as the 120,000 SF former Procore campus at 6303-6309 Carpinteria Ave, currently for sale, comes to market for lease as well.



Toyon Research leased 50 Castilian Dr, the 43,665 SF former AppFolio building



The Freitas Building at 200 E Carrillo St was the site of two Q3 renewals totaling 19,500 SF.

RETAIL LEASING

Santa Barbara

It's been a dramatic year of news for downtown Santa Barbara, with Yardi Systems taking over Paseo Nuevo, the City Council finally ratifying the master plan, and that plan then being waylaid by a referendum effort. Meanwhile, the State Street corridor has followed a gradual trend of recovery through the year so far. Storefront vacancy across the 400 to 1300 blocks fell to 11.7% in the third quarter, down from 12.0% at midyear and 14.5% at the end of 2025. Measured by square footage, the corridor tightened more sharply, to 11.8% from 15.5% at midyear, as several larger spaces were absorbed. The quarter's signings were led by Columbia Bank, which took the prominent former Pacific Premier Bank building at the corner of State and Carrillo (6,253 SF at 1035 State St). Travel-apparel shop Wear & Roam opened at 537 State St. Punch Vintage leased 631 State St in a move from the 1200 block, part of an evolving wave of resale and vintage retailers—including Neighbor Neighbor, the Habitat ReStore, and State Street Trading Post—opening storefronts recently.

As mentioned in the sales section, Yardi Systems took possession of a large portion of the Paseo Nuevo mall during Q3, setting up the next chapter for downtown's most prominent retail project. Its shops remain open while the new owner formulates a strategy for the center and the roughly 32,000 SF of interior vacancy. That space is reflected in Santa Barbara's overall retail vacancy of 2.9% for the quarter, down from 3.3% at midyear.

Nationally, reinvestment has begun flowing back into malls on a selective basis, favoring top-tier, well-located centers even as weaker properties are demolished or converted to other uses. Paseo Nuevo brings much of what that trend rewards—a prime downtown location in a supply-constrained, affluent market—so to the extent the new owners can position the mall to catch that wave, Paseo Nuevo could have a brighter future ahead. Equally important is Yardi's opportunity to create a symbiotic ecosystem between its downtown workforce and the property's shops and restaurants.

Turning to restaurant leasing, the quarter's largest retail lease was on the waterfront, where the team behind Secret Bao leased the 6,916 SF former Blue Water Grill at 15 E Cabrillo Blvd, with plans for two new concepts in an upstairs-downstairs arrangement. MarAmi Vineyards expanded its downtown operations, leasing 3,890 SF at 136 E Haley St for storage and distribution following its lease of the tasting room at 35 State St earlier in the year. Other Q3 restaurant activity included the former Bibi Ji space at 1213 State St being claimed for a new breakfast spot called Esther's. Moving east from downtown, Wella's Soul Food leased 318 N Milpas St, and Local renewed at 1187 Coast Village Rd.



The spacious lighthouse building at 15 E Cabrillo Blvd was leased by local restaurateurs for a dual-restaurant concept.

Fitness operators solidified their footprints, including a renewal by Bodyrok at 741 Chapala St and an expansion by Key 2 Fitness at 324 State St.

Goleta

Goleta recorded no retail leases in the third quarter, and vacancy edged up to 2.8% from 2.5% at midyear, though it remains tight. Looking ahead, the 25,348 SF anchor space at 191 N Fairview Ave in Fairview Center—the former Bed Bath & Beyond now occupied by The Grove Pickleball—is set to come back on the market in the fourth quarter, which will lift Goleta's year-end vacancy back above 3% for the first time in a year.

Carpinteria

Carpinteria likewise saw no retail activity in Q3, and its vacancy rose to 4.6% from 3.8% at midyear. Four spaces have come to market along the Linden Avenue corridor over the past two quarters, where asking rents currently average a lofty $4.65 per SF gross.

INDUSTRIAL LEASING

South Coast industrial leasing was quiet in the third quarter, with just four leases signed. The slow pace reflects the ongoing dynamic in which smaller spaces get leased quickly, leaving a scarcity of supply in that size range, while larger spaces often linger on the market as big tenants prove harder to find. Regional industrial vacancy remains very low at 2.7%, and year-to-date gross absorption of 113,000 SF across 20 leases is about half the five-year pace.

Santa Barbara's inventory remains especially slight, with industrial vacancy at 1.8%. Both Q3 leases went to catering operators: Graze Craze took 1,541 SF at 126 E

Haley St, and Slate Catering leased 2,660 SF at 3030 State St. A limited number of spaces have come to market recently. Among them, the 5,214 SF former automotive building at 502 E Haley St, listed for sale in April, is now available for lease as well.

Goleta saw two small leases and little else of note, the larger of which was private storage rather than a commercial use. Vacancy nonetheless tightened to 2.4%, down from 4.3% at the end of 2025 and its lowest rate in two years. Most of the available inventory, however, has been sitting: of the city's five industrial offerings, only the 9,900 SF space at 600 Ward Dr has been on the market less than a year.

There were no industrial leases in Carpinteria during Q3, following a relatively active first half that yielded five transactions. Vacancy rose to 6.8% at the end of the quarter, and all three listings have been available less than a year, the newest being 27,878 SF in the former Reality Church building at 5201 6th St. Inventory promises to expand further, as several spaces coming to market in Q4 could push the vacancy rate into double digits as 2027 approaches.



Slate Catering leased 2,660 SF at 3030 State St, one of the few industrial leases in Q3..

LEASING MARKET DATA

	Market	Vacancy Rate		Transactions		Gross Absorption (SF)		Achieved Rent (PSF GR)	
OFFICE	Santa Barbara	**6.9%**	-19%	**63**	-10%	**204,125**	-7%	**$3.38**	+7%
	Goleta	**5.9%**	+13%	**32**	+19%	**403,750**	+56%	**$2.64**	+11%
	Carpinteria	**5.7%**	+56%	**0**	-100%	**0**	-100%	**na**	na
RETAIL	Santa Barbara	**2.9%**	+4%	**52**	+12%	**180,747**	+84%	**$4.54**	+3%
	Goleta	**2.8%**	+2%	**8**	-24%	**17,106**	-58%	**$2.90**	-26%
	Carpinteria	**3.1%**	+46%	**3**	-50%	**3,523**	-50%	**$2.55**	-28%
INDUSTRIAL	Santa Barbara	**1.8%**	+7%	**8**	-11%	**23,436**	-15%	**$2.85**	+7%
	Goleta	**2.4%**	-45%	**7**	-51%	**50,959**	-63%	**$1.64**	-18%
	Carpinteria	**4.6%**	+48%	**5**	+11%	**38,749**	-31%	**$1.68**	+20%

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

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