

Strong Quarter Continues Momentum

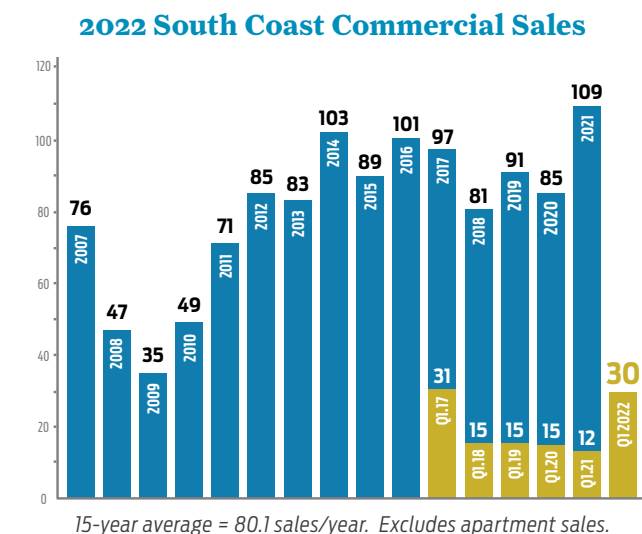
30 Q1 commercial sales most in 5 years; 3 more hotels trade

Coming off a record fourth quarter and 2021 overall, commercial sales continued this momentum into the first quarter of 2022.

While first quarters typically tend to see the slowest sales activity of the year, a few spillover Q4 2021 deals ushered a hot start to Q1 2022 and we continued to see many of the same robust market characteristics we've been experiencing.

In fact, it was the **strongest first quarter in five years with a total of 30 sales at a volume of more than \$152MM** (excludes hotel sales), up significantly compared to Q1 2021 (12 sales / \$39MM). The 15-year average for Q1 sales is 19. The quarter also fared well compared to the record breaking Q4 2021 (43 sales / \$335MM), validating our strong market fundamentals. The breakdown for the quarter includes 10 office sales, 7 retail, 6 industrial, 3 hospitality and 4 land sales.

A few of the outlier trends we saw in Q4 2021 continued, for example an increase in hospitality sales with three hotels trading during the first quarter. The two most notable were the Franciscan Inn, a 53-key hotel in West Beach, selling for \$22MM; and the 158-key Kimpton Goodland Hotel in Goleta, which sold for \$33MM. Another trend that seems to now be the norm is the number of off-market deals. **Fifty percent of Q1 sales were completed off-market** (37% in Q4 2021), a trend due in large part to the high demand and lack of inventory, and strong buyers putting properties under contract before they hit the open market. Again, **investors led the way taking down 19 of the 30 transactions**, with owner-users completing 11. We attribute this to an increase in the amount



The Franciscan Inn & Suites • 109 Bath St., Santa Barbara
53 Keys | \$22 Million • \$415,094/Key
3/10/2022



of cash buyers (most owner-users require financing) and 1031-Exchange buyers in the market. A good example is the sale of 118 E. Carrillo St., a fully leased office property that sold off-market at a premium to a local investor in a 1031-Exchange. Furthermore, the office/industrial complex at 315-346 Bollay Dr. in Goleta was sold off-market for \$50.7MM to a group that has been acquiring a portfolio of industrial buildings in the area, marking another large transaction for the South Coast.

Commercial Sales Summary Continued on P.2

Q1 Quick Stats

30

**MOST Q1 SALES
IN 5 YEARS**

63%

**INVESTOR SALES (19)
VS. OWNER-USER (11)**

\$50.7MM

**LARGEST Q1
COMMERCIAL SALE**

\$152.3MM

**Q1 SALES VOLUME*
VS. \$39MM Q1-2021**
(*Excludes Hotel Sales Volume)

Continued from P.1

There are many discussions ongoing about where the market goes from here. As mentioned earlier, the strong opening of 2022 continues to validate the current fundamentals of record high demand and low inventory coupled with strong cash and 1031 buyers circling the market. Additionally, real estate tends to be an investment vehicle investors look to during times of inflation concern, which is helping drive further demand.

That said, there are some headwinds that will test the market moving forward. The recent uptick in interest rates has sidelined some buyers and left some properties on the market for longer periods. While quality properties priced correctly are still being snapped up quickly (sometimes with overbids) by cash buyers not fazed by the current lending atmosphere, we may see a lag effect in how the market responds to rising interest rates and other economic uncertainties. We still expect to see a strong 2022 based on current properties in escrow and upcoming inventory, but not without the expectation of a few new hurdles.

Notable Q1 2022 Sales

- **315-346 Bollay Dr, Goleta** ▪ ±194,625 SF Office/Industrial, Santa Barbara Business Park Complex (\$50.7MM) *Off-market*
- **Kimpton Goodland Hotel** ▪ 158-key Hotel (\$33MM) *Off-market*
- **Franciscan Inn Hotel** ▪ 53-key Hotel (\$22MM)
- **531 E Ortega St** ▪ ±20,405 SF Office/Institutional (\$8MM) *Owner-User*
- **118 E Carrillo St** ▪ ±10,627 SF Office Building 100% Leased in Downtown CBD (\$7.5MM) *Off-market*
- **309 W Quinto St** ▪ ±3,528 SF Medical Office, UCLA Health (\$3.8MM) *Off-market*

Q1 Commercial Sales Summary



Q1 Multifamily Sales Summary

South Santa Barbara County

Strong demand continues for multifamily property in Santa Barbara South County, with very little inventory coming to market at this time. A total of seven (7) investment properties larger than 5 units sold in South Santa Barbara County in Q1 of 2022, the largest being 13 units at 1007-1023 Olive St. in Santa Barbara which traded off market for \$10,238,500 (\$787,576/ unit) at a 3.50% cap rate. The property consisted of six buildings on three parcels. While there is still the occasional off-market transaction, properties that come to market are seeing a large amount of activity to the benefit of sellers who are receiving top-of-market pricing and favorable transaction terms. This is a reflection of the competitive buyer pool with investors willing to pay top dollar. The looming concern over new rent control restrictions as well as increased interest rates has not deterred investors in the market at this time.

The City of Santa Barbara's apartment rental vacancy rate is still currently in the 2% range for Q1 of 2022. This is the lowest sustained vacancy rate Santa Barbara has seen in recent years. Limited new supply coming on the rental market coupled with greater demand creates a situation where rental rates raise to new market highs when properties do come available.

Meanwhile in Isla Vista there was just one (1) transaction greater than 5 units in Q1, a 6-unit multifamily building at 6590 Cordoba Rd. that sold for \$2,100,000 or \$350,000/unit.

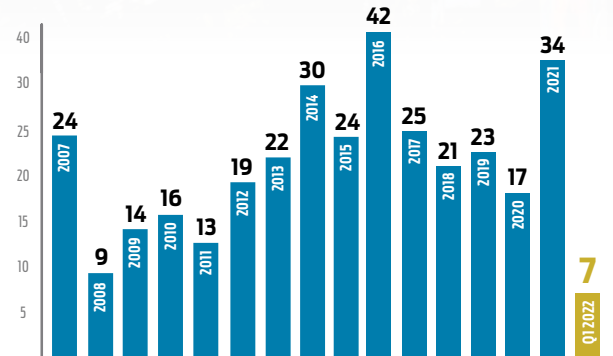
Santa Barbara North County

There were just four (4) multifamily transactions in the Santa Maria-Orcutt-Lompoc region, with the largest being 102 units at 416 W. North Ave. in Lompoc which traded for \$22,500,000 (\$221,000/unit) at a 3.68% CAP rate. The property included approx. 71, 915 SF buildings on 4.71 acres. Another Lompoc property being 6 units at 507 W. Ocean Ave. which sold for \$1,220,000 at a 5.0% CAP rate and a PPU of \$203,333.

1007-1023 Olive St., Santa Barbara
13 Units | \$10,238,500 (\$787,577/Unit) 3.5% Cap
2/8/2022



2022 South County Multifamily Sales



Sales of Multifamily properties 5+ Units in size

Meanwhile in Santa Maria a 4-unit building sold at 303 Sheila Ln. for \$1,020,000 at a 4.60% CAP. Another 4-unit property at 450 Union Ave. in Orcutt sold for \$1,500,000 at a 6.08% CAP. A sizeable property at 1314 S. Broadway, Santa Maria came to market. The property listed at \$19,800,000 and includes 125 residential and 2 commercial units as well as development opportunity to add an additional 52 units. The property is currently in escrow and is expected to close in Q2.

W. Ventura County

W. Ventura County saw seven (7) transactions in Q1 of 2022, and in recent months the City of Ventura has been gaining a good deal of interest from both renters and investors alike. With the leasing vacancy rate in W. Ventura County hovering around 3%, this is due in part to an influx of tenant interest moving into this region.

In the City of Ventura, the largest transaction was 35 units at 248 S. Hemlock St. which sold for \$10,100,000 (\$288,571/ Unit) at a 4.38% CAP Rate. Further south in the City of Camarillo, 152 units at Terra Camarillo at 555 Rosewood St. sold for \$61,200,000, representing the largest transaction in the County during the quarter.

San Luis Obispo County

Up north to San Luis Obispo, the leasing vacancy rate has dropped over the past year and is now just slightly above 3% as of Q1 2022. Not surprising and just like in our other regions, there is strong demand from buyers in the market but very limited opportunities for multifamily investments. SLO County saw just one (1) transaction completed, a 44-unit property at 648 Felton Way which traded off market for \$10,200,000 at a PPU of \$231,818.

2022 SO. COAST LEASING QUICK STATS

Vacancy

		Q 4.21	Q1.22
OFFICE	Santa Barbara	9.2%	9.7%
	Goleta	6.6%	6.1%
	Carpinteria	3.9%	9.7%
INDUSTRIAL	Santa Barbara	0.6%	0.8%
	Goleta	2.7%	3.5%
	Carpinteria	3.7%	2.8%
RETAIL	Santa Barbara	3.5%	2.8%

Quarterly Absorption (SF)

	Q 4.21	Q1.22	
OFFICE	Santa Barbara	77,300	66,000
	Goleta	11,100	33,900
	Carpinteria	1,500	N/A
INDUSTRIAL	Santa Barbara	12,600	8,500
	Goleta	41,800	18,100
	Carpinteria	0	22,600
RETAIL	Santa Barbara	58,300	84,800

Avg. Gross Asking Rates (\$/SF)

		Q 4.21	Q1.22
OFFICE	Santa Barbara	\$3.26	\$3.25
	Goleta	\$2.20	\$2.07
	Carpinteria	\$2.32	\$2.19
INDUSTRIAL	Santa Barbara	\$2.54	\$1.98
	Goleta	\$1.61	\$1.75
	Carpinteria	\$1.78	\$2.06
RETAIL	Santa Barbara	\$4.21	\$4.04

Avg. Gross Achieved Rates (\$/SF)

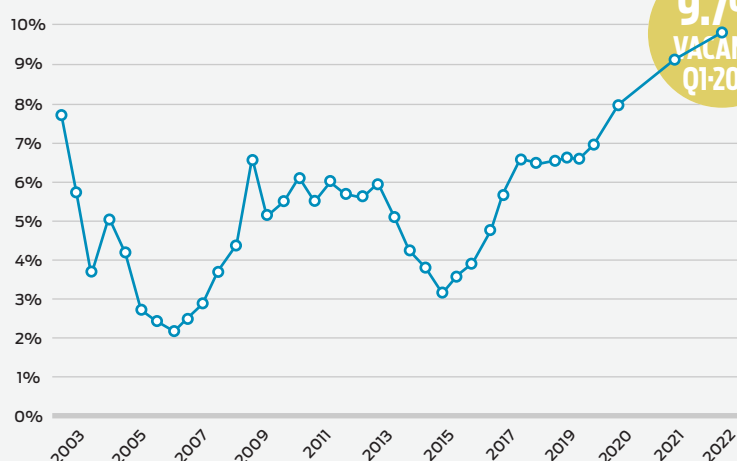
		Q 4.21	Q1.22
OFFICE	Santa Barbara	\$3.07	\$3.22
	Goleta	\$2.32	\$2.10
	Carpinteria	\$2.13	N/A
INDUSTRIAL	Santa Barbara	\$1.66	\$2.23
	Goleta	\$1.52	\$1.77
	Carpinteria	N/A	\$1.29
RETAIL	Santa Barbara	\$3.71	\$3.05

Q1 South Coast Leasing Summary

Office

The Santa Barbara office market has weathered the impacts of the COVID storm and currently sees a 9.7% vacancy rate. This rate includes both Macys and Nordstrom's second and third floor space being converted to "office" from "retail". Without this new supply from Macy's and Nordstrom the vacancy rate would be closer to 8.0%. The largest lease of the quarter was UCLA Health leasing nearly 22,000 SF at 111 E. Victoria St. Mercer Advisors also vacated their long-time space at Las Aves and leased 6,210 SF on the fourth floor at 222 E. Carrillo St. formerly occupied by Fell Marking Attorneys at Law.

SANTA BARBARA OFFICE VACANCY



Meanwhile in Goleta the office vacancy rate decreased slightly in Q1 to 6.1%. The largest lease of the quarter was a confidential tenant leasing 72,000 SF of new building space at the Cabrillo Business Park. Also in the same complex, UCSB leased approx. 11,000 SF in a relatively new building likely due in part to the University's standards regarding seismic safety. The largest available chunk of office space in Goleta is approx. 46,000 SF in multiple spaces at 6750 Navigator Way.

Down to Carpinteria, the office vacancy rate rose considerably to 9.7% which represents its highest level since Q3 2017. That said, this is a small inventory market so fluctuations are common. There were no new office leases during the first quarter and none finalized yet in the weeks following the quarter's end. The largest available space is a 25,000 SF sublease at 6267 Carpinteria Ave. on the bluffs. Procore has also trimmed back some space they had on Cindy Lane and on Via Real.

Leasing Summary Continued on P.5

Q1 South Coast Leasing Summary

Continued from P.4

Industrial

There were just eight (8) new industrial leases totaling nearly 50,000 SF during the first quarter throughout the entire South Coast. This is largely due to very low vacancy rates with very little space available. The most notable lease was Jordano's taking approx. 11,800 SF at 30 S. La Patera Ln. in Goleta.

Similarly there are only 5 industrial vacancies in Santa Barbara as of the first quarter, so the trend of limited inventory continues. With the vacancy rates low and relatively unchanged on the South Coast—Goleta being the highest at just 3.5%—we did see achieved gross lease rates increase in Carpinteria, Santa Barbara and Goleta. While we expect industrial leasing to remain strong with steady demand and limited supply we do expect a leveling off of the rates for this next quarter. Industrial leasing will continue with stable rates and very limited supply. With ongoing industrial demand, we are hopeful to see new development applications, however there remains limited undeveloped industrial land.

Santa Barbara Retail

During the first quarter, there were a total of six (6) retail leases signed in Santa Barbara totaling approx. 85,000 SF (1 fewer lease than Q4 2021). All of these transactions were below about 5,000 SF with the one notable outlier being the lease of approx. 70,000 SF to Mattress Mike's at 3845 State St. in the former Sear's building in La Cumbre Mall. Another notable lease occurred at 28 W. Figueroa St., with approx. 5,000 SF leased to Bungalo805 for a new-concept business.



**Leased | 111 E. Victoria St., Santa Barbara
Office | ±21,954 SF (UCLA Health)**



Also of note were two new restaurant leases on State Street. Beans BBQ leased approximately 3,300 SF at 1230 State St. and L'Antica Pizzeria da Michele leased approx. 2,500 SF at 1031 State St.

On the vacancy front, the Santa Barbara retail vacancy rate clicked downward from last quarter's 3.5% rate to 2.8% (driven mainly by the Mattress Mike's lease of 70,000 SF mentioned above). Asking rates for Santa Barbara retail are currently sitting at \$4.04/SF Gross Equivalent (Base Rent + NNN). Achieved Rates declined fairly substantially dropping from Q4's \$3.71/SF Gross Equivalent to \$3.05/SF Gross Equivalent in Q1. With limited number of Lease transactions occurring, achieved rates can fluctuate dramatically. The current \$3.05/SF Gross Equivalent achieved rate is in the range of the \$3.00-\$4.00 Gross Equivalent Achieved Rates that we have been tracking since Q4 of 2020. The true market rate of a retail building/space is dictated by the specific location and size of the retail asset.

At the end of Q1 there was approx. 293,000 SF of retail space for lease in Santa Barbara (down from Q4's total of approx. 372,000 SF). The new owner of the approx. 175,000 SF Nordstrom property in downtown Santa Barbara appears committed to going after larger "creative office tenants." If they are successful, this will remove a large chunk of previous retail inventory from the downtown corridor but breathe new life into downtown by bringing more workers to the neighborhood who will frequent retail amenities.

**3845 State St., Santa Barbara (First Floor)
70,000 SF Retail | Mattress Mike's**

Q1 South Coast Leasing Summary

Downtown State Street Q1 Retail Update

The start of 2022 delivered positive news for downtown Santa Barbara with an overall decrease of available retail storefronts on State Street. Two new restaurant leases including Pizzeria De Michele at 1031 State St. and Beans BBQ at 1230-A State St. combatted the restaurant closures seen during Q4 2021. More progress was appreciated with additional new leases at 427 State St. (State Street Axe Club) 809 State St. (Sunglass Hut) and 1101 State St. (LA Kaiser). Meanwhile the 900 block continues to experience limited progress with nine vacancies on that block.

Signs of a changing downtown economy are once again highlighted by an adaptive reuse project at 1023 State St. which is under permitting for new headquarters for a local architecture firm. While the property's previous use was soft-goods retail, the new office use will coincide with more of a live/work community rather than traditional retail and tourism that State Street has relied on. Decreasing vacancy plus hospitality improvements once again confirm the closure of a portion of State Street has had a positive effect on the commercial corridor.

State Street Retail Vacancy

	Q4.2021	Q1.2022
Total Storefronts	249	249
Storefronts Available For Lease	40	37
Vacancy Rate of Storefronts Available For Lease	16.06%	14.86%
Vacant Storefronts	24	24
Perceived Vacancy Rate	9.64%	9.64%
Storefronts Still Occupied by Tenant	4	3
Pop-Up Shops	12	10

Each month, Radius associate Justin Diem conducts research including visual inspection of the downtown State Street corridor (400–1300 blocks). The vacancy rate is calculated using State Street facing storefronts. Some spaces may be leased and we are not aware of it. Pop-up shops are included as vacant since they are short term (12 months or less). First floor State Street-fronting office/banks are excluded in this count. *Report updated as of 4/10/2021.

New Leases

During Q1 2022 (through 4/10/2022), we observed at least five (5) new retail tenants on downtown State Street:

- **1230-A State St. — ±3,311 SF (Beans BBQ)**
- **1031 State St. — ±2,508 SF (L'Antica Pizzeria da Michele)**
- **427 State St. — ±2,500 SF (State Street Axe Club)**
- **1101 State St. — ±1,786 SF (LA Kaiser)**
- **809 State St. — ±1,417 SF (Sunglass Hut)**

VACANT STOREFRONTS BY THE BLOCK

○ Vacant / Available Spaces ● Available but Occupied Spaces PU Short Term Pop-Up Shops

