

## SLOWING SALES TREND CONTINUES

**South Coast Q1 commercial sales count comparable to previous first quarters while dollar volume slips dramatically**

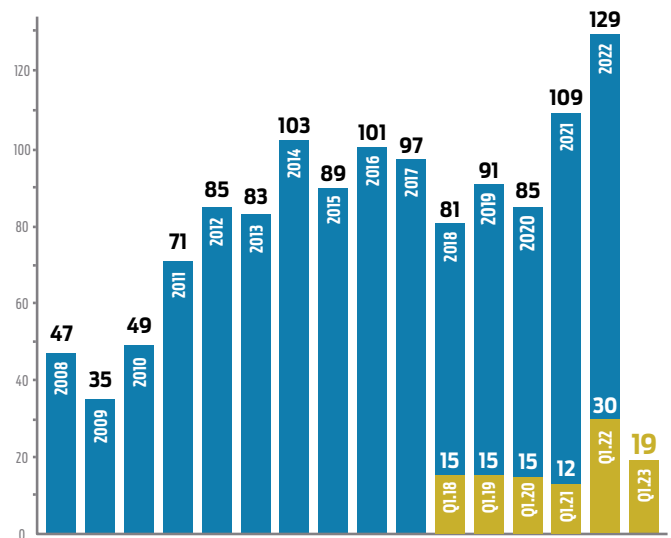
Commercial sales activity on the South Coast continued to soften during the first quarter of 2023, consistent with the trajectory the market was heading at the end of 2022, and typical of most first quarter statistics in recent years.

Despite the uncertainty in the market, healthy transactions still took place as the quarter notched 19 sales at a volume of \$40.5MM (excluding hospitality sales volume). Still, these numbers are down dramatically in comparison to Q4 2022 (24 sales / \$101MM), and Q1 2022 (30 sales / \$152MM). It's important to note the substantial difference in volume versus the relatively small difference in number of sales, a result of smaller properties trading as well as

**Castillo Inn at the Beach • Largest Sale of Q1**  
**22 Castillo St. Santa Barbara • 21 Key Boutique Hotel**  
**\$9,250,000 • \$440,476/Key (3/21/2023)**



### 2023 South Coast Commercial Sales



15-year average = 83.7 sales/year. Excludes apartment sales.

fewer trophy properties garnering premium pricing. The largest price on a non-hospitality asset was just \$5.5MM. Furthermore, even though the 19 sales count is ahead or consistent with four out of the last five first quarters, a fair amount of the transactions that took place came from spillover deal flow from late 2022.

Categorically, there were nine (9) office sales, four (4) industrial, four (4) retail, one (1) land and one (1) hospitality. The higher office sale count is reflective of the number of owner-user buyers for the quarter (13 owner-users, 6 investors), also indicative of the lack of

*Commercial Sales Summary Continued on P.2*

## Q1 Commercial Sales Summary

Q1.23  
Quick  
Stats

19

Q1.23 SALES  
VS. 30 Q1.22

68%

OWNER-USER SALES (13)  
VS. INVESTOR SALES (6)

\$40.5MM

Q1.23 SALES VOLUME  
VS. \$152MM Q1.22

(Excludes Hotel Sales Volume)

9

OFFICE SALES (47%)  
TOTALING \$19.6MM (48%)

Continued from P.1

investor demand in the capital markets. Additionally, 1031-Exchange deadlines were deferred to later in the year, sidelining more investors.

Looking forward, the market is definitely in a transition period due to the repercussions of last year's interest rate increases, and most recently the stress in the banking sector. We are seeing both seller and buyer reluctance, significant gaps in pricing expectations, cap rate decompression and deals offered that are difficult to finance in the current lending environment. We predict deal flow to be lower in Q2 than Q1, and the second half of the year will depend on the Fed's next move along with how other economic issues play out.

## Notable deals

**22 Castillo St. (Castillo Inn at the Beach) —**  
\$9,250,000 — 21 key hotel in West Beach

**6900 Hollister Ave. —** \$5,500,000 — Corner Retail  
Property sold to Owner-User (*Off-Market*)

**835 Laguna St. —** \$4,500,000 — Special Purpose  
Office Property sold to Owner-User

**133 W. De La Guerra St. —** \$1,585,825 — Downtown  
Office Property (*Sold for 2nd time in a year*)

**2594 Lillie Ave., Summerland**  
**±2,100 SF Retail**  
**\$3,150,000 (2/15/2023)**



**406-408 N. Quarantina St., Santa Barbara**  
**1,947 SF Industrial/Whse on 12,197 SF Land**  
**\$1,900,000 (2/17/2023)**



**133 W. De La Guerra St., Santa Barbara**  
**2,232 SF Creative Office | \$1,585,825 (1/27/2023)**



## Q1 Multifamily Sales Summary

### Santa Barbara South County

There remains strong demand and interest for multi-family properties in Santa Barbara South County, and we're still seeing very little inventory coming to the market currently. A total of six (6) investment properties 5+ units in size sold in South Santa Barbara County in Q1 2023, the largest being a combined 239-unit student housing asset in Isla Vista. Located at 6711 & 6721 El Colegio Rd. and 775 Camino Del Sur, the CBC & The Sweeps properties were purchased by Core Spaces, an investment group out of Chicago, IL, for \$91,675,000 or \$383,577/unit. This was one of the largest unit count transactions for Isla Vista properties in recent years. Core Group then made headlines with this transaction for attempting to evict all current tenants.

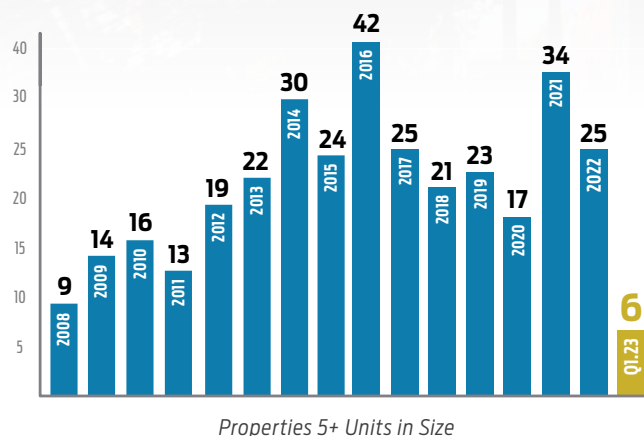
The largest transaction in the City of Santa Barbara was a 17-unit property that sold for over asking price at 509 Fig Ave. Fourteen (14) of the 17 units were delivered vacant and ready for a new owner to update the units to achieve market rents, a unique opportunity that we do not see very often in Santa Barbara.

The city's apartment rental vacancy rate is still very low around 2% in Q1 of 2023, continuing the lowest sustained vacancy rate Santa Barbara has seen in recent years. As properties are coming to market, we have seen a slight decrease in lease rates from the recent highs that we saw from Q3 of 2021 to Q3 of 2022. Though rents are still up significantly over a 5-year period, they have come down from the high watermark we saw in 2022.

**CBC & The Sweeps • 6711 & 6721 El Colegio Rd. & 775 Camino Del Sur  
Isla Vista | 239 Units | \$91,675,000 (\$383,577/Unit)  
3/15/2023**



### 2023 South County Multi-Family Sales



We also saw a 31-unit portfolio come to market that had previously been listed in Q4 of 2022: 6712 Del Playa Dr. (2 units), 6509 Sabado Tarde (18 units) 6528 Sabado Tarde (4 Units) and 6529 Trigo Rd. (3 commercial & 4 residential units totaling 7 units). The portfolio was listed for \$13,500,000 at a current CAP rate of 3.90% and a pro-forma CAP of 5.05%.

### Santa Barbara North County

Santa Barbara North County saw just one (1) transaction in Q1, located at 1465–1505 Ash Ave. in Santa Maria. Built in 2021, this 6-unit building sold for \$2,355,000 (\$392,500/unit) at a 5.25% CAP rate.

### W. Ventura County

In W. Ventura County we saw five (5) transactions in Q1 of 2023, the largest being 45 units at 11114 Darling Rd. in Ventura. Built in 2019, the property sold at a 4.2% CAP rate at a price of \$20,350,000 (\$452,222/unit), a discount from its original asking price of \$23,000,000.

Q1 of 2022 vs. Q1 of 2023 is a great example of the byproduct of the Fed rate hikes and their effects on transactions in the area. In 2022, we saw nine (9) transactions in Q1 compared to the five (5) transactions in 2023 Q1. This is the result of a

*Multifamily Sales Summary Continued on P.4*

## Q1 Multifamily Sales Summary

*Continued from P.3*

combination of factors but there seems to be a direct line between the Fed hikes and decreasing transaction totals. We are seeing buyers who still want to get into the market but are not able to come up to the pricing that sellers became accustomed to during the low interest rate periods of 2021. Most owners as well as buyers are going through a “price discovery” process and the new normal for where rates are going to reside which has an effect on purchasing power for certain groups.

### San Luis Obispo County

SLO County saw a total of four (4) transactions of properties over 5+ Units. The largest property was located at 965 Monterey St., the Anderson Hotel, which houses 76 studios and was purchased by the Housing Authority of the City of San Luis Obispo. This property is noted as a redevelopment project for the Housing Authority.

### In summary

Upon reflecting on Q1 of 2023 we can point to a few key takeaways. First, there remains a great deal of interest from buyers that are circling the area. Second, we have seen rents plateau and decrease from the highs of 2022; however, rates still remain higher than we have seen over the past couple of years. Third, rising interest rates continue to impact sales activity. Finally, we are starting to see CAP rates on properties trade in the 4.5–5.5% range or at the very least when properties come to market there is a clear path to a 5+ CAP rate.

## Q1 Santa Barbara County Agricultural Land Summary

For the 1st Quarter of 2023, in Santa Barbara County there were seven (7) sales of property larger than 25 acres, totaling 950 acres and a combined transaction volume of just under \$38 million. This included a \$9MM designer estate ranch in Happy Canyon, a \$2.9MM / 198AC oil property purchased by Chevron in Casmalia, a 109AC property on San Julian Road with a pre-existing conservation easement for \$2.4MM and a 196AC multi-parcel acquisition in Tepesquet Canyon for \$2.5MM.

Perhaps the most interesting Q1 deal was the off-market sale of 10920 Calle Real, the 201AC El Capitan Ranch headquarters, at just under \$17MM. Marketing for the property described it as having “multiple permits for use either as private or mixed uses such as public trail rides/overnight camping, equestrian or recreation events... with 11 staff houses, 3 barns, tri-plex, 4-plex, trail office, 13AC sports/polo field... Perfect for private compound, vineyard/wine club, dude ranch, non-profit, equestrian, corporate retreat...” The buyer, Sun Ranch 201 LLC, is affiliated with the ownership of El Capitan Canyon. The property will no doubt be incorporated into their operations.

Land owners are celebrating the incredible rain year. However, showings of large acreage properties paused for many weeks during the quarter waiting for roads to dry. Once the sun came out the showing activity increased precipitously. Activity and interest in commercial agriculture remains strong moving into 2023. Land in our area is viewed as a safe investment, especially in inflationary times. Word is also out there are changes afoot at the County level which will result in increased economic viability of Ag-zoned parcels in unincorporated areas. The Agricultural Enterprise Ordinance and the Recreational Master Plan are both working their ways through the planning process (the Farmstay Ordinance Amendments have been incorporated into the Agricultural Enterprise Ordinance planning process). This is a moment of unique opportunity for owners/buyers of commercial Ag land to submit projects while this process is occurring. The County is actively seeking land owner involvement:

<https://www.countyofsb.org/728/Agricultural-Enterprise-Ordinance>

<https://www.sbcrecplan.com/>

## 2023 So. Coast Leasing Quick Stats

### VACANCY

	Q4.22	Q1.23	
OFFICE	Santa Barbara	9.7%	13.8%
	Goleta	9.8%	9.6%
	Carpinteria	26.0%	27.1%
INDUSTRIAL	Santa Barbara	0.1%	0.4%
	Goleta	3.0%	4.0%
	Carpinteria	1.2%	1.2%
RETAIL	Santa Barbara	2.7%	2.6%

### GROSS ABSORPTION (SF)

		Q4.22	Q1.23
OFFICE	Santa Barbara	30,600	34,200
	Goleta	6,300	13,200
	Carpinteria	2,600	3,000
INDUSTRIAL	Santa Barbara	31,900	12,800
	Goleta	6,100	16,300
	Carpinteria	63,600	0
RETAIL	Santa Barbara	25,000	33,800

### AVG. GROSS ASKING RATES (\$/SF)

		Q4.22	Q1.23
OFFICE	Santa Barbara	\$3.31	\$3.24
	Goleta	\$2.17	\$2.16
	Carpinteria	\$2.44	\$2.69
INDUSTRIAL	Santa Barbara	\$3.09	\$2.26
	Goleta	\$1.94	\$1.96
	Carpinteria	\$2.45	\$2.45
RETAIL	Santa Barbara	\$4.38	\$4.31

### AVG. GROSS ACHIEVED RATES (\$/SF)

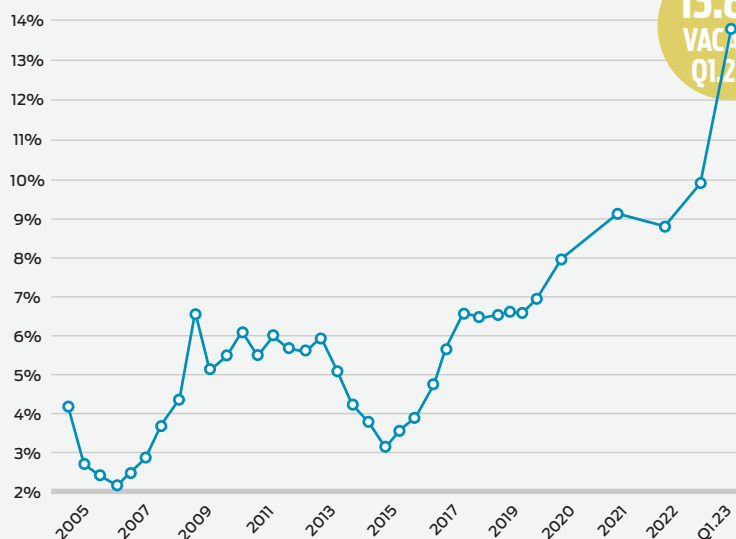
	Q4.22	Q1.23	
OFFICE	Santa Barbara	\$3.12	\$3.08
	Goleta	\$2.03	\$2.02
	Carpinteria	No Leases	\$2.00
INDUSTRIAL	Santa Barbara	\$2.42	\$2.58
	Goleta	\$1.66	\$2.23
	Carpinteria	\$1.60	N/A
RETAIL	Santa Barbara	\$4.20	\$4.80

## Q1 South Coast Leasing Summary

### Office

Santa Barbara's office market vacancy rate took a huge leap to 13.8% during the first quarter. Although the matter of just how (or if at all) to count the former Macy's (132,500 SF) and Nordstrom (165,642 SF) spaces is debatable, the fact is both buildings are vacant and—with the official listing of the Nordstrom building in Q1—both now are being marketed entirely as office. Many believe neither building will ever be leased as office. If you remove both Paseo Nuevo bookends from the vacancy, the overall vacancy rate drops to about 8%, which is still at the higher end historically.

### SANTA BARBARA OFFICE VACANCY



The quarter saw 14 new office leases in Santa Barbara totaling roughly 34,000 SF absorption, with the largest lease at 530 E. Montecito St. (8,909 SF), followed by 820 State Street (6,885 SF). Meanwhile down in Carpinteria, the office vacancy rate has now climbed to 27.1%. While that may seem like a crazy number, it's important to remember the relatively small size of the Carpinteria market as well as its larger floorplates. With Pro-Core's recent contraction, that alone has dramatically impacted the market. Also there was just one new lease signed during the quarter (3,000 SF) at 4188 Carpinteria Ave. The majority of the vacancy in Carpinteria actually sits at 6267 Carpinteria Ave. (50,000 SF – ProCore sublease) and 6307-B Carpinteria Ave. (28,493 SF – ProCore sublease). ProCore's sublease space represents 70% of Carpinteria's available space. The next largest space is 8,896 SF at 6398 Cindy Ln. Finally moving up to Goleta, at the end of the first quarter the Goleta office vacancy rate stands at 9.6%, relatively flat to the 9.8% recorded in Q4 2022. During Q1 2023 the largest lease completed was 5,460 SF as Casa Pacifica relocated from Santa Barbara. Not much else

Leasing Summary Continued on P.6

*Continued from P.5*

happened during the quarter with absorption just over 13,000 SF. By contrast there were currently 15 office spaces for lease larger than 10,000 SF, with the largest two being 43,655 SF and 35,960 SF, both AppFolio subleases. Ears to the ground as there are rumblings of other large office spaces hitting the market soon which may push Goleta's office vacancy rate even higher.

## Industrial

The first three months of 2023 proved to be an uneventful period for industrial leasing on the South Coast. Few new leases were reported and vacancy remained extremely low in Santa Barbara and Carpinteria. We did see the Inogen space (50,532 SF) in Cabrillo Business Park come to market for sublease, moving Goleta's vacancy rate up to 4%. Consequently three of the seven industrial spaces for lease in Goleta account for about 76%, or 128,000 SF of the 167,000 SF total available in the market. We expect to see continued demand in the smaller, sub-10,000 SF size range while some uncertainty persists regarding larger-size industrial spaces. Meanwhile lease rates are relatively unchanged and remain stable with no dramatic changes forecast.

## Retail

Leasing of retail space was relatively active on the South Coast during the first quarter even as downtown State Street remains an area of focus for Santa Barbara.

During Q1, there were 13 new retail leases signed totaling approx. 34,000 SF, a 27% increase in absorption over Q4 2022. These transactions ranged from just 625 SF (620 State St., Sweet Reef Boba) to 11,450 SF, the largest lease of the quarter with Sonoma Fit planning to open a 24/7 gym in January at 530 State St., the former Sammy's Camera location. However, State Street did lose two tenants who moved to other area locations including Open Air Bicycles pedaling on to 135 E. Carrillo St., and Rooms & Garden going for a refresh at Montecito's Upper Village. Another notable lease involved Jiffy Lube who refinished the former Meineke building on Upper State St.

Montecito retail continues to hold strong with 1250 Coast Village Rd. now fully leased with the addition of Montecito Collective, and another undisclosed tenant who quickly secured the vacancy at 1187 Coast Village Rd. Meanwhile other South Coast cities enjoyed their own share of retail activity with five new leases

## Q1 South Coast Leasing Summary

**Leased | 320 Storke Rd. (100), Goleta  
±16,331 SF Industrial  
1/1/2023 (Launchpoint)**



**Leased | 1 N. Calle Cesar Chavez (11)  
Santa Barbara, ±11,683 SF Industrial  
2/28/2023 (ServiceMaster)**



**Leased | 530 State St., Santa Barbara  
±11,450 SF Retail  
2/6/2023 (Sonoma Fit)**



**Leased | 530 E. Montecito St. (101)  
Santa Barbara, ±8,909 SF Office  
1/22/23 (New Beginnings)**



in Goleta and two new tenants at Shepard Place Shops in Carpinteria, including local restaurateur Mollie's who is curating an Italian market.

For the fifth quarter in a row, the overall Santa Barbara retail vacancy rate remained generally flat, now at 2.6%. Asking rates for Santa Barbara retail are averaging about \$4.30/SF Gross Equivalent (Base Rent + NNN), down from \$4.38/SF in Q4 2022. Achieved Rates increased from \$4.20/SF Gross Equivalent to \$4.80/SF Gross Equivalent during the same time period. However, rising retail lease rates over the past year continue to be skewed by increasing rents in Montecito, as the two Coast Village Road leases referenced earlier came in at \$8.35/SF and \$9.15/SF Gross Equivalent.

It's worth noting two retail sales that stood out, both off-market deals: 6900 Hollister Ave., Goleta (\$5.5MM), the property that houses Montecito Bank & Trust and The Vitamin Shoppe at the high-traffic corner of Storke and Hollister, selling to a future owner-user; and 2594 Lillie Ave., Summerland (\$3.2MM), home of Sacred Space which also sold to an owner-user. Both garnered a high \$/SF. The true market rate or value of a retail building is dictated by the specific location and size of the retail asset.

## Q1 West Ventura County Summary

### Lease Vacancy Rates

By the end of the first quarter, the West Ventura County (Ventura, Oxnard and Camarillo sectors) retail vacancy rate was 6.9%. The overall lease velocity for retail in West Ventura County has been vibrant as inline shopping center space that has been sitting vacant for years is being absorbed by service retail tenants, fitness users and eateries.

There continues to be a post-Covid surge in consumer spending resulting in an increase in retail sales volumes and ultimately retailers expanding.

One of the larger leases completed during the first quarter involved a grocer tenant signing a lease for 42,000 SF at the former Ralphs location at 3443 Saviers Rd. in Oxnard. The current largest vacant space in the market is the 38,761 SF Vons located at Central Plaza in Camarillo. The grocery store will relocate to a new building built over the former Kmart.

# 6.9%

OVERALL WEST VTA COUNTY

# 4.3%

CITY OF VENTURA

# 10%

CITY OF OXNARD

# 5%

CITY OF CAMARILLO

### Commercial Sales

With the increase in interest rates, sales velocity for retail property has slowed. There were a total of 10 retail properties that traded during the first quarter. The largest was Camarillo Village Square, an approximately 251,600 SF Sprouts- and Ross- anchored shopping center in the city of Camarillo which commanded \$83,595,000 at a 5.88% Cap Rate. This was a unique transaction in that it was generated by exchange money coming out of apartment property in Texas.

**Camarillo Village Square Shopping Center • Largest Sale of Q1**  
**2350 Las Posas Rd. Camarillo • 246,733 SF Retail**  
**\$83,595,000 (2/10/2023)**



# 91

COMMERCIAL, MULTI-FAMILY,  
LAND & BUSINESS  
SALES 2022

8 Sales Over \$10 million!

# 475

MILLION DOLLARS+  
TOTAL SALES VOLUME 2022

Commercial, Multi-Family,  
Land & Business Sales

# 142

LEASES 2022

\$72 Million in Value

615,000 SF Buildings

70,000 SF Largest Lease



123,000 SF QAD Campus on 29 Acres • Sold for \$104 Million



53-Key Franciscan Inn • Listed at \$22 Million



70,000 SF Lease • Former Sears Building Santa Barbara

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