

BAKERY BLOCK TRADES

Funk Zone city block sells for \$19 Million; encouraging start to 2024 with 22 total South Coast commercial sales

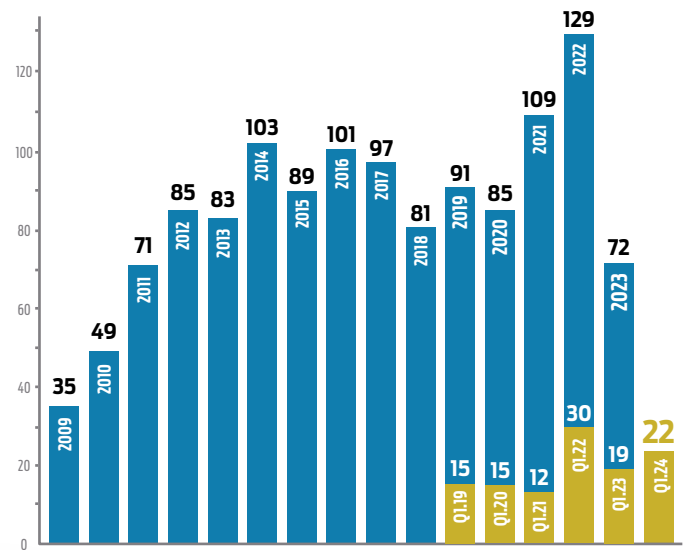
The year 2024 got off to a steady start with a few noteworthy transactions taking place. Although the market still seems sluggish, there was a jump in activity from 2023's low performance, likely due to pent up demand reacting to news in early 2024 of potential interest rate cuts.

As the data presents, the first quarter brought 22 transactions, the best performing quarter in deal count since Q2 2023, and on par with previous Q1 data with an average of 18 Q1 sales over the last five years. In terms of dollar volume, the sales totaled \$59MM (excluding \$9.5MM in hospitality volume), an increase from \$40.5MM during the same quarter last year, but still a drop from Q4 2023's \$68.5MM.

121 E. Mason St., Santa Barbara • The Funk Zone
2.07 Acres / 35,000 SF Buildings Covering Entire City Block
Purchased 1/24/2024 for \$19MM
(Adaptive Reuse)



2024 South Coast Commercial Sales



15-year average = 85.3 sales/year. Excludes apartment sales.

Smaller deal sizes remains a trend occurring each quarter for the past year, with the average deal size being just \$3.1MM. The reason being smaller priced deals typically involve all cash buyers, and deals exceeding \$5MM tend to require financing. In fact, 12 of the 22 transactions were all-cash, and of the remaining deals that included financing, three were seller-financed. As the majority of the deals were all-cash, it correlates that investors outpaced users in Q1 (12 investors / 10 owner-users). Furthermore, two deals took place with true in-

Commercial Sales Summary Continued on P.2

Quick Stats

22

#Q1 SALES (2024)
LARGEST COUNT
SINCE Q2 2023

18

AVG Q1 SALES
PAST 5 YEARS

Q1 Commercial Sales Summary

\$59MM

Q1 SALES VOLUME (2024)
vs. \$68.5MM (Q4 2023)
Excluding Hotel Sales

\$19MM

LARGEST Q1 SALE (2024)
ENTIRE CITY BLOCK
IN FUNK ZONE

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place cap rates at 5.0% and 5.5%, verifying a shift in the market as buyers and sellers begin to close the gap on pricing differential.

The largest and most prominent deal of the quarter was the \$19MM sale of the “Bakery Block” in the Funk Zone at 121 E. Mason St., encompassing six parcels over an entire block. The property includes two acres of land and 35,000 SF of buildings slated for an adaptive reuse project. Interestingly, this was one of four Funk Zone transactions during Q1.

For the quarter, the breakdown by property type included eight (8) retail sales, eight (8) office, four (4) industrial, one (1) land and one (1) hospitality deal.

As mentioned last quarter, there is no surprise the two major factors affecting the market forecast are interest rates and the election. As the Fed continues to move the target on rate cuts, there remains a divide as some buyers and sellers are waiting to see how things play out while others are motivated to strike deals now. Underlying fundamentals in the economy remain strong and there still seems to be plenty of cash on the sideline, although investors remain cautious. The market seems poised to transition from bearish to bullish with the catalyst being the first rate cut, whenever that may be.

3055 De La Vina St., Santa Barbara
Hospitality on .6 Acres Purchased by Housing
Authority of the City of Santa Barbara
\$9,450,000 (3/15/2024)



228 Santa Barbara St., Santa Barbara
4,700 SF Retail Building in The Funk Zone
\$4,650,000 (2/28/2024)



Q1 Multifamily Sales Summary

Santa Barbara South County

Throughout Q1 of 2024, we continued to see strong demand and interest for Multi-family properties in Santa Barbara South County. Market conditions from 2023 spilled over into the beginning of 2024 as we saw similar transaction trends in the first quarter as we did in Q4 of 2023, with properties closing under their list price. Buyers are still putting a greater emphasis on the property's current condition, rental income and tenant tenure versus future potential upside, which we saw when interest rates were sub-4 % roughly 24 months ago.

In Q1, we saw seven (7) transactions in South Santa Barbara County for properties with 5+ units. The two largest assets sold were at 414 W. Figueroa St., a 10-unit property with a majority of 2-bed units which traded for \$5,020,000 (\$502,000/Unit) at just over a 4.05% CAP rate; and another 10-unit property at 712 W. Anapamu St. that sold to Transition House for \$5,350,000 (\$535,000/unit). This property was a turn-key building delivered to Transition House completely vacant.

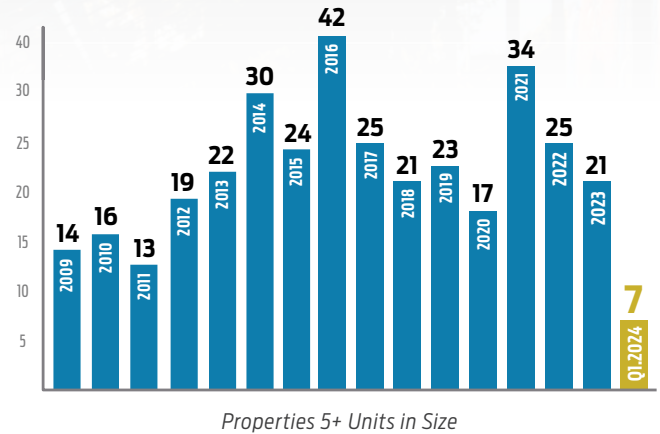
The highest price-per-unit property sold in Q1 was a 7-unit property located at 2160 Ortega Hill Rd., Summerland. This property sold off-market at \$6,200,000 or \$885,714/Unit and included six long-term rentals and one short-term rental. The property was a turn-key building with all the units at current market rent, and generating strong income from the short-term rental component of the building.

Properties that come to market are continuing to see solid activity, ultimately benefiting the sellers to achieve the highest and best pricing. This reflects the competitive buyer pool currently in the marketplace, which is still looking for investment opportunities throughout South Santa Barbara County. These buyers are willing to pay aggressive pricing but are aware that the market conditions have

414 W. Figueroa St., Santa Barbara
10 Units • \$5,020,000 (3/1/2024)



2024 South County Multi-Family Sales



changed and have moved away from the days of 3% CAP rates that sellers enjoyed in the past. Looming concerns over new rent control guidelines in the City of Santa Barbara make it difficult for buyers to view the property with only a potential rental upside lens. Now more than ever we are seeing buyers putting greater emphasis on the property's current rental income that they would be receiving at the time of purchase versus pro-forma income. Buyers will consider the AB annual increases, the potential market rents, the timeline to achieve those increased rents, and the work that must be completed on the property to position the building to achieve those rents. This can be a slow process for new owners before they can position a property to achieve its highest and best potential.

The City of Santa Barbara's apartment rental vacancy remains very low, holding around 2-3% in Q1 of 2024. This is the lowest sustained vacancy rate that Santa Barbara has seen in recent years. Rental Rates have plateaued for now and are down from the highs of 2021 and 2022. There is still a strong need for additional housing in South Santa Barbara County.

Santa Barbara North County

In Q1 of 2024, Santa Barbara North County saw just three (3) transactions involving properties greater than 5 units: two in Lompoc and one in Orcutt. The two buildings in Lompoc were sold as a package by the seller to the same buyer. 716 N. G St. (18 units) & 332 N. L St. (12 units) combined for 30 units total,

Multifamily Sales Summary Continued on P.4

Q1 Multifamily Sales Summary

Continued from P.3

selling for \$3,800,000 (716 N. G St.: \$2,280,000; 332 N. L St.: \$1,520,000) at a 4.24% CAP rate and \$126,667/Unit. Meanwhile the property in Orcutt located at 101-191 Rice Ranch Rd. was a 10-unit asset that sold for \$3,150,000 (\$315,000/Unit).

The vacancy rate in this submarket is essentially the same as the previous year at 3.5%, slightly below the long-term average. Rents have increased slightly in the region by about 3% higher than where they were last year at this time. In the past three years, rents have increased by a cumulative 20.6%.

W. Ventura County

Down to West Ventura County, there were three (3) transactions 5+ units in size in Q1 of 2024. 40 N. Brent St. in Ventura was an 8-unit property that sold for \$2,487,000 (\$310,875/Unit) at a 4.78% CAP rate, receiving a good amount of interest from multiple groups.

The largest sale of the quarter was a portfolio sale in Oxnard which included 160 units and sold for \$41,800,000 (\$261,250/Unit and a cap rate in the range of 5.17%. These properties were on the market for 149 days and sold below their initial asking price.

The first quarter of 2024 is a great example of the effects of the Fed rate hikes on transactions in this area. We are seeing buyers who still want to get into the market and purchase in the area but cannot come up with pricing that sellers have become accustomed to and saw during the low-interest rate periods of the previous few years. Most owners and buyers are going through a “price discovery” process and the new normal where the high interest rates will affect their purchasing power.

5-Property Portfolio in Oxnard

Pictured: 540-560 W Channel Island Blvd, Gemini III Apartments

Total 160 Units • \$41,800,000 (3/11/2024)



San Luis Obispo County

SLO County saw five (5) transactions in Q1 of 2024 of properties 5+ units in size. The largest occurred in Pismo Beach, a 17-unit building sold at 241 Ocean View for \$4,274,000 (\$251,470/Unit) at a cap rate of 4.15%. The highest price-per-unit property in SLO county was in Grover Beach at 153 N. 16th St. This 5-unit property sold for \$1,350,000 and a Price/Unit of \$270,000/door. This property sold at a 3.95% CAP rate. The City of San Luis Obispo had one sale at 969 Pismo; this property was a 15-unit building that sold for \$4,000,000 (\$266,666/Unit) at a 4.00% CAP rate.

The vacancy rate in the South SLO Submarket is currently around 3.6%, and slightly above the long-term average of 3.4%-3.5%. South SLO county has seen year-over-year rental growth of roughly 2.6%, which has been one of the better growth rates among the Central Coast submarkets.

Summary

Heading into Q2, activity has been slower than initially anticipated. There was a certain expectation approaching 2024 that we may see a rate cut around Q2 of 2024, which is not the case now. We now anticipate a potential rate cut in late 2024 or early 2025. With this in mind, we will see interest rates reside in their current general range, making it difficult for buyers to reach certain price points. We will see more transactions in 2024 in comparison to 2023 as more buyers and sellers are starting to find common ground when it comes to pricing.

2024 So. Coast Leasing Quick Stats

VACANCY

	Q4.23	Q1.24
OFFICE		
Santa Barbara	9.9%	9.6%
Goleta	7.9%	8.6%
Carpinteria	27.8%	29.4%
INDUSTRIAL		
Santa Barbara	0.6%	0.8%
Goleta	3.0%	2.6%
Carpinteria	2.2%	1.5%
RETAIL		
Santa Barbara	2.5%	2.5%

GROSS ABSORPTION (SF)

	Q4.23	Q1.24
OFFICE		
Santa Barbara	66,300	42,500
Goleta	65,900	21,000
Carpinteria	3,600	0
INDUSTRIAL		
Santa Barbara	13,300	10,500
Goleta	20,400	13,600
Carpinteria	900	2,800
RETAIL		
Santa Barbara	16,900	27,700

AVG. GROSS ASKING RATES (\$/SF)

	Q4.23	Q1.24
OFFICE		
Santa Barbara	\$3.17	\$3.15
Goleta	\$2.20	\$2.22
Carpinteria	\$2.67	\$2.61
INDUSTRIAL		
Santa Barbara	\$2.37	\$2.79
Goleta	\$2.04	\$2.03
Carpinteria	\$1.54	\$1.33
RETAIL		
Santa Barbara	\$4.26	\$4.24

AVG. GROSS ACHIEVED RATES (\$/SF)

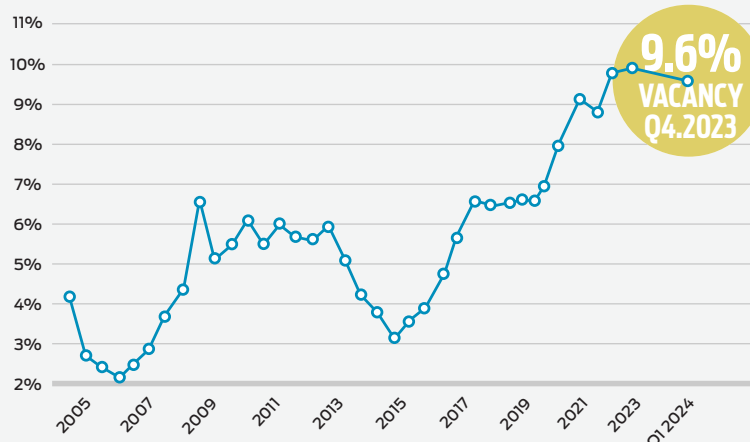
	Q4.23	Q1.24
OFFICE		
Santa Barbara	\$3.17	\$3.01
Goleta	\$2.33	\$2.55
Carpinteria	\$1.73	N/A
INDUSTRIAL		
Santa Barbara	\$2.73	\$1.86
Goleta	\$1.69	\$2.14
Carpinteria	\$2.30	\$1.62
RETAIL		
Santa Barbara	\$3.61	\$3.44

Q1 South Coast Leasing Summary

Office

The Goleta office vacancy rate ticked up slightly from 7.9% in Q4 2023 to 8.6% during Q1 2024. The largest leases of the quarter were Sansum taking 8,184 SF for 12 months at 5425 Hollister Ave. while another property they occupy is renovated; and Sovato Health taking 6,031 SF at 130 Castilian Dr. for three years. Meanwhile, the three largest spaces for lease are 50 Castilian Dr. (43,655 SF), 6500 Hollister Ave. (29,372 SF) and 425 Pine Ave. (22,964 SF); all three of these spaces are subleases. In fact, five of the six largest office spaces available in Goleta are subleases.

Santa Barbara Office Vacancy



Moving on to Santa Barbara, the office market saw the vacancy rate decrease slightly from 9.9% in Q4 2023 to 9.6% during Q1 2024. There were actually 22 new leases completed in the first quarter, well above average. The largest lease of the quarter was the City of Santa Barbara leasing 6,376 SF at 621 Chapala St., followed by Snyder, Burnett, Egerer LLP leasing 4,402 SF at 3757 State St. While the approx. 112,000 SF former Nordstrom property technically represents the largest available office space on the market, that space may never become "office". The largest existing office spaces available are 614 Chapala St. (27,217 SF) and 25 E. Mason (28,106 SF), both recently vacated by Sonos.

Rounding out the South Coast, Carpinteria's office vacancy rate increased slightly from 27.8% in Q4 2023 to 29.4% during Q1 2024. There was just one new lease in the first quarter which was Carpinteria-Summerland Fire District leasing 2,195 SF of space at 1140 Eugenia Pl. Meanwhile the two largest available spaces remain the ProCore spaces for sublease at 6267 Carpinteria Ave. (50,995 SF) and 6307-B Carpinteria Ave. (28,493 SF).

Leasing Summary Continued on P.6

Q1 South Coast Leasing Summary

Continued from P.5

Industrial

The South Coast industrial leasing market remained stable in the first quarter of 2024 with continued low vacancy rates (0.8% in Santa Barbara, 2.6% in Goleta and 1.5% in Carpinteria) and stable lease rates. This was another light quarter for industrial leasing activity with the two largest leases being 8,400 SF at 495 Pine Ave. in Goleta and 6,800 SF at 1 N. Calle Cesar Chavez in Santa Barbara. Notable industrial vacancies include 326 Bollay Dr., Goleta (42,611 SF), 6310 Hollister Ave., Goleta (30,520 SF) and 430 E. Gutierrez St., Santa Barbara (10,790 SF). We expect South Coast industrial lease rates to remain stable/flat with less overall tenant activity in the market.

Retail

Retail leasing activity appeared to ramp up in the Santa Barbara market during Q1, an encouraging sign for an asset class that has faced significant scrutiny over the past several years.

During the first quarter of 2024, there were 14 new retail leases in Santa Barbara totaling approx. 28,000 SF of space, a notable uptick compared to the anemic five retail leases recorded in Q4 2023. Still, this positive leasing activity to start the year did not impact Santa Barbara's retail vacancy rate, which remained flat from the previous quarter at 2.5%.

The quarter's standout lease in Santa Barbara occurred downtown in conjunction with the sale of the 4,375 SF corner property at 636 State St. Vuori clothing signed a long-term lease with the new landlord, signaling a vote of confidence in the market after their previous shorter-term lease on the 800 block. This lease also represents a milestone for State Street, as Verizon was the last tenant to occupy this corner at Ortega and State Street back in 2018.

While not in Santa Barbara proper, another notable lease was signed by Finney's at Camino Real Marketplace in Goleta, taking 4,962 SF. Their expansion into the former Hollister Brewing space is an exciting addition for Goleta's retail market.

Moving back downtown, recent property sales on the 900 block have sparked positive developments for this struggling section of State Street. The sale of the vacant 921 State St. property in December facilitated the opening of Master Yun Tai Chi and Kung Fu, relocating from Montecito. Additionally, Novo Salon extended its lease with the new property owner,



**Leased | 495 Pine Ave., Goleta
±8,400 SF Industrial
1/19/2024 (Pacific Acoustics North)**



**Leased | 5425 Hollister Ave., Goleta
±8,184 SF Office
2/13/2024 (Sansum Diabetes)**



**Leased | 1 N. Calle Cesar Chavez
Santa Barbara · ±6,800 SF Industrial
3/12/2024 (Dramatic Choices, Inc.)**



**Leased | 621 Chapala St.
Santa Barbara · ±6,376 SF Office
2/7/2024 (City of Santa Barbara)**



**Leased | 636 State St., Santa Barbara
±4,375 SF Corner Retail
3/12/2024 (Vuori)**



**Leased | 3757 State St.
Santa Barbara · ±4,402 SF Office
1/5/2024 (Snyder Burnett Egerer LLP)**

avoiding displacement in the rear portion of the property. Another significant transaction was the sale of 922 State St. in February, which will see a local business owner transitioning from an industrial property to downtown, with plans for office space upstairs and retail on the ground floor. This property was formerly home to Namaste clothing store, which has since relocated to a vacant storefront across the street at 911 State St. These developments underscore how commercial property sales serve as catalysts for revitalization and economic health. Furthermore, to cap off an active quarter for State Street, Venture Apparel at 428 State and Aperitivo at 413 State are poised to bolster the 400 block, particularly with the new pedestrian-friendly underpass taking shape. During Q1 2024, asking rates for Santa Barbara retail averaged \$4.24/SF Gross Equivalent (Base Rent + NNN), while achieved rates decreased from \$3.61/SF Gross Equivalent to \$3.44/SF Gross Equivalent. Overall, the positive start to the year in retail leasing underscores the resilience of the retail sector and small businesses along the South Coast.