RADIUS Insight

RADIUS® Commercial Real Estate

SOUTH COAST MARKET REPORT

Q2 2023

Q2 Commercial Sales Summary

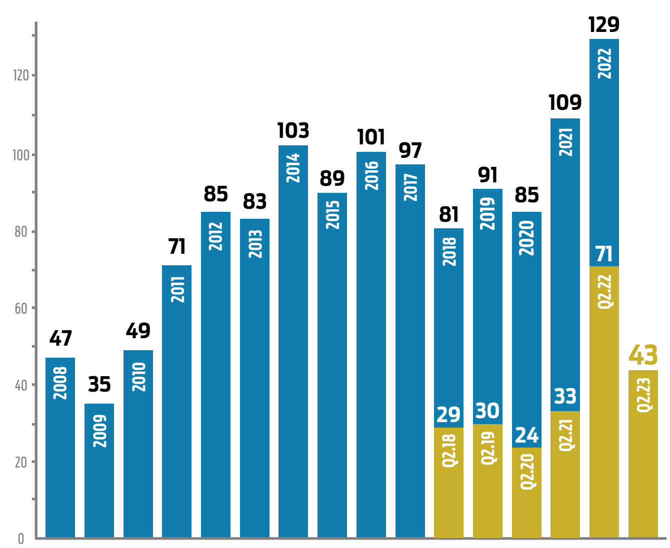
Q2 DEAL FLOW IMPROVES FROM START OF YEAR

2023 on track to hit 15-year average of 84 sales, though market slowdown expected to continue as Fed eyes more interest rate bumps

Commercial sales activity on the South Coast continued to decelerate as the first half of the year ended, and while the numbers reflect a seemingly average quarter, the market is certainly singing a different tune. While 2022 and even some of Q1 2023 displayed robust sales characteristics, the latest quarter was much more reflective of the higher interest rate environment and overall sentiment in the economy.

The second quarter saw 24 total commercial sales with a volume of just under $96MM, vastly different from Q2 2022 (41 sales / $254MM). However, separating 2022 as a somewhat outlier year, Q2 2023 figures are much more consistent with the average of second quarters from the four prior years for Q2 (15 sales / $56MM). And when comparing to last quarter, deal flow actually improved from 19 sales on $40.5MM in volume in Q1.

2023 South Coast Commercial Sales



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

117 & 133/135 E. Ortega St., Santa Barbara
Office/Warehouse Bldg. + SFR on 1.06 Acres
Sold for Multi-Family Development
$8,550,000 Combined (4/11/2023)

Specifically for Q2 there were 10 office sales, 6 retail, 6 land and 2 industrial. Of that count, the deal flow skewed to investors (17) versus owner-users (7), with 9 sales taking place off-market, a continuing market trend that seems to increase each quarter, and 1031 exchanges contributing as well.

Even though these numbers appear to be fine, one important detail hidden in the data is that 11 deals that closed in Q2 included properties that were listed back in 2022 and spent significant time on the market before undergoing price reductions, with effective closing prices in many cases much less than original asking prices. This speaks to the fact that there is a lot of buyer curiosity from

Commercial Sales Summary Continued on P.2

Q2 Commercial Sales Summary

Q2.23 Quick Stats

24	71%	$96MM	10
Q2.23 SALES VS. 19 Q1.22	INVESTOR SALES (17) VS. OWNER-USER (7)	Q2.23 SALES VOLUME VS. $40.5MM Q1.23 *(Excludes Hotel Sales Volume)*	OFFICE SALES (42%) TOTALING $33.7MM (35%)

Continued from P.1

a price discovery standpoint in the market. While buyers are hesitant to pay full price, properties that come online with realistic pricing are still receiving solid attention and have been able to reach the finish line. Additionally, we are seeing plenty of cautious buyers, reluctant sellers, fewer 1031-Exchanges, continued low inventory, long due diligence periods, re-trading and deals that require creative solutions such as seller financing or loan assumptions.

Over all, based on data for the first half of 2023, the numbers are on track to hit the 15-y.r average of about 84 sales per year. As for second half projections, we expect to continue to see slow transaction volume as the Fed is planning more rate hikes and the market continues to be in price discovery mode. However, the delayed 1031-Exchange deadline from the Disaster Relief Program is due October 15, so we may see an uptick in activity around that time as many buyers have elected to use the excess time in anticipation of potentially finding better deals.

Notable Q2 deals

117 & 133/135 E. Ortega St., Santa Barbara — $8,550,000 Combined
Office/Warehouse + SFR on 1.06 Acres
Sold for future multi-family development

701 Linden Ave., Carpinteria — $5,650,000
The Palms Hotel (Investor Sale)

1915 Chapala St., Santa Barbara — $5,350,000
Church property sold to developer for Airbnb hotel

115 S. La Cumbre Ln., Santa Barbara — $4,435,000
Office property purchased by an Owner/User

600 Chapala St., Santa Barbara — $4,350,000
Traded off-market to an Investor

425 Garden St., Santa Barbara — $4,150,000
Entitled project to develop 30-unit multi-family

701 Linden Ave., Carpinteria
±10,604 SF Retail (The Palms)
$5,650,000 (6/5/2023)

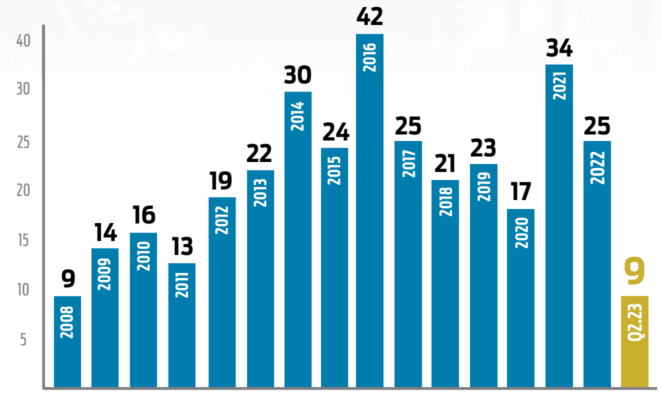
115 S. La Cumbre Ln., Santa Barbara
13,022 SF Office Building
$4,435,000 (4/14/2023)

600 Chapala St., Santa Barbara
6,619 SF Office Building
$4,350,000 (4/27/2023)

Q2 Multifamily Sales Summary

During the second quarter of 2023, we did not see as much activity as we have in previous years. This was expected in the multi-family space with rising interest rates. The 10-year treasury started around 3.307% in April and by the end of June was just under 4% at 3.844% (6/30/2023). Over the next 5-6 months, we are expecting to see at least one more—if not two more—interest rate hikes, which has a direct impact on buyer ability to reach on price in our space. We are still seeing a strong buyer pool but those buyers are much more conservative with their underwriting, taking into great consideration the cost of debt as it is currently playing a much larger factor in the market.

2023 South County Multi-Family Sales



Properties 5+ Units in Size

Santa Barbara South County

South Santa Barbara County saw a total of just three (3) multi-family transactions in Q2 2023 (properties greater than 5+ units). The largest in size was 283 Ellwood Beach Dr., Goleta, a 12-unit building with (11) 1 BD/1BA units and (1) studio, which sold for $4,000,000 ($333,333/Unit · 4.67% CAP Rate), below its list price of $4,150,000.

Down in Summerland, 125–129 Greenwell Ave. (10 Units) traded for $450,000 over asking at $5,200,000, after receiving multiple offers. This was a unique transaction as it was offered with seller financing, which attracted strong attention in the market. There was a good amount of upside in current rents and this location had the option to convert units to short-term rentals which was seen as a great value-add opportunity. Seller financing was a great alternative option for the seller to achieve a price point that they would not have otherwise been able to if buyers had to leverage conventional lending.

283 Ellwood Beach Dr., Goleta
12 Units · $4,000,000 ($333,333/Unit · 4.67% CAP Rate)
4/17/2023

Finally in Santa Barbara at 1510 Eucalyptus Hill Rd., this 10-unit property sold off market for $4,750,000 ($475,000/Unit).

Isla Vista

Zooming in specifically on Isla Vista, the second quarter saw several new properties come to market, though there was limited sales activity. One new listing, 6712 Del Playa Dr., closed as part of a portfolio sale alongside three other properties. This 2-unit (both units 2BD/1BA) sold for $1,600,000 in the 3.25% CAP Rate range. As we enter Q3, 6509 Sabado Tarde (18 units) is being offered at a 3.53% CAP Rate. Additionally, 6529 Trigo Rd. & 6528 Sabado Tarde, combining for 11 units (8 residential and 3 ground floor retail/commercial), is still available for sale at a 4.68% CAP Rate.

Due to the strong demand for student housing in Isla Vista, owners are continuing to achieve top of the market rents. Still investors are exercising a cautious approach and careful consideration in their decision-making process, due in part to the current high interest rate environment and factoring in the current available properties being offered with low CAP rates associated with their sales prices.

Multifamily Sales Summary Continued on P.4

Q2 Multifamily Sales Summary

Continued from P.3

Santa Barbara North County

North Santa Barbara County saw just one transaction of 5+ units during Q2 of 2023, at 520 & 528 E. Newlove Dr. in Santa Maria. This property had under-market rents and consisted of six total buildings with a unit mix of (3) 1BD units, (6) 2BD units, (1) 3BD unit and (1) 4BD/2BA units. The property was listed at $2,175,000 and ended up selling over asking with multiple offers, at $2,350,000.

W. Ventura County

In West Ventura County, there were a total of five (5)transactions of properties larger than 5 units during Q2 of 2023. The largest to trade was a 73-unit building in Camarillo, which consisted of (20) 1BD units and (53) 2BD units. This property comprised a total of 8 buildings spread out on 2.95 acres. There was very high vacancy at this location at around 41%. In another deal, 811 Paseo Camarillo sold for well under its $31,500,000 list price at $23,100,000. The property was purchased by Essex Group who owns multiple other buildings in close proximity.

The largest transaction in the City of Ventura was a 12-unit building located at 72-82 W. Ramona St. This property sold for $3,500,000 ($291,677/unit) at a 4.97% CAP Rate. The City of Ventura has about 380 units that are currently under construction representing a 4.9% expansion in inventory. Ventura has also seen around a 2.2% increase in rental rates from where they were about a year ago. In the past three years, rents in the City of Ventura have increased about 18%.

San Luis Obispo County

Finally up in San Luis Obispo County, we saw one 5+ unit property at 450 Manhattan Ave. in Paso Robles trade at a 5.0% CAP Rate for $2,000,000 ($285,714/unit). This property consisted of 7 units: (6) 2BD and (1) 3BD.

Rental rates in North San Luis Obispo County have experienced minimal growth, whereas South San Luis Obispo County, led by the City of San Luis Obispo, has seen an annualized rent growth of approximately 4.5%. This rate of growth is one of the highest along the Central Coast. Despite this, San Luis Obispo historically has limited activity in multi-family transactions.

In summary

There remains strong demand for multi-family property in San Luis Obispo, Santa Barbara and Ventura Counties. However, we are seeing investors exercising caution and taking more time than in past quarters. This is due to the unique combination of high interest rates and low asking CAP rates where properties are currently being priced. This dynamic has resulted in a number properties trading below the asking price point in Q2. We are anticipating more of the same for the remainder of the year. Similar to Q1 of 2023, rents have plateaued and slightly decreased from the highs of 2022. Owners are still achieving much higher rates than we have seen over the past couple of years in the region.

2023 So. Coast Leasing Quick Stats

VACANCY

		Q1.23	Q2.23
OFFICE	Santa Barbara	13.8%	12.6%
	Goleta	9.6%	9.8%
	Carpinteria	27.1%	31.3%
INDUSTRIAL	Santa Barbara	0.4%	0.8%
	Goleta	4.0%	4.4%
	Carpinteria	1.2%	3.3%
RETAIL	Santa Barbara	2.6%	2.0%

GROSS ABSORPTION (SF)

		Q1.23	Q2.23
OFFICE	Santa Barbara	34,200	60,400
	Goleta	13,200	13,400
	Carpinteria	3,000	2,400
INDUSTRIAL	Santa Barbara	12,800	16,500
	Goleta	16,300	27,000
	Carpinteria	0	0
RETAIL	Santa Barbara	33,800	16,400

AVG. GROSS ASKING RATES ($/SF)

		Q1.23	Q2.23
OFFICE	Santa Barbara	$3.24	$3.27
	Goleta	$2.16	$2.21
	Carpinteria	$2.69	$2.69
INDUSTRIAL	Santa Barbara	$2.26	$2.12
	Goleta	$1.96	$1.95
	Carpinteria	$2.45	$1.90
RETAIL	Santa Barbara	$4.31	$4.25

AVG. GROSS ACHIEVED RATES ($/SF)

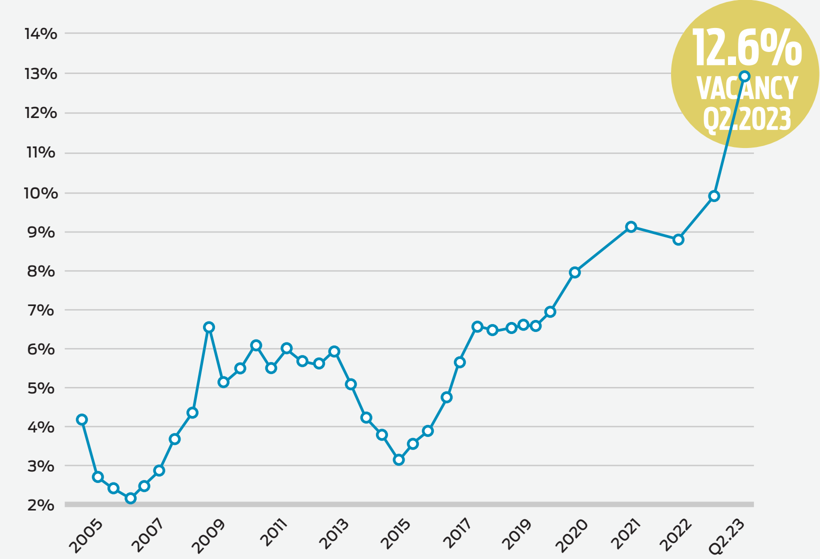
		Q1.23	Q2.23
OFFICE	Santa Barbara	$3.08	$3.03
	Goleta	$2.02	$1.99
	Carpinteria	$2.00	$2.00
INDUSTRIAL	Santa Barbara	$2.58	$1.96
	Goleta	$2.23	$2.08
	Carpinteria	N/A	N/A
RETAIL	Santa Barbara	$4.80	$3.16

Q2 South Coast Leasing Summary

Office

Santa Barbara's office vacancy rate ticked down during the second quarter to about 12.6%. This remains historically very high for Santa Barbara. The largest Q2 lease was 9,268 SF at 1332 Anacapa St. with Morgan Stanley relocating from their office on Santa Barbara Street. The owner of the vacated Santa Barbara Street office property is exploring converting that large office space into residential; hopefully this is a trend we will see continue on the South Coast. Meanwhile the former Macy's and Nordstrom spaces in Paseo Nuevo Mall (approx. 298,000 SF combined), which are both being marketed as office

SANTA BARBARA OFFICE VACANCY



space, represent 46% of the total 642,482 SF of office space currently available in Santa Barbara. It goes without saying that those spaces remain key to the future of our market and the vitality of State Street.

On to Goleta, the office vacancy rate has stabilized at just under 10% for the last three quarters. There are two larger office leases in the works that may lower this vacancy in the third quarter. During Q2, the two largest office leases went to SEE International with 5,784 SF at 6500 Hollister Ave., and Montecito Bank and Trust at 6950 Hollister Avenue at 5,611 SF. It's notable that of the five largest office vacancies in Goleta, four of them are subleases totaling 120,000 SF. This means that while vacancy may be up, many landlords are not yet feeling the pain.

Down to Carpinteria, the office vacancy rate passed 30% this quarter, at 31.3%. In a market with very small inventory we can see these dramatic swings when a few larger spaces come to market at the same time. There is a total of 147,000 SF of office space available and over half of that square footage is from ProCore subleases at 6267 Carpinteria Ave. (50,000 SF) and 6307-B Carpinteria Ave. (28,493 SF).

Leasing Summary Continued on P.6

Continued from P.5

Industrial

After several years this is the first quarter in which the vacancy rate rose and gross achieved lease rates declined in all three sub-markets on the South Coast. The vacancy rates are still low but we now have 10 vacancies over 10,000 SF each. The majority of the vacancies are in this larger format space as company operations with scale continue to struggle in this labor constrained market. Tenants that previously had little or no options now have more leverage at the negotiating table.

Two highlight leases for the quarter include MOS Equipment leasing 11,126 SF at 26 Castilian Dr. Suite D, Goleta, and SCP Distributors leasing 13,667 SF at 402 E. Gutierrez St., Santa Barbara. The largest vacancy is at 301 Coromar Dr. in Goleta's Cabrillo Business Park, with Inogen vacating 50,532 SF. This space is set to be leased by Sonos who plans to consolidate their R&D operations, moving from their current Santa Barbara offices at 25 E. Mason St. This is a bit surprising as Sonos had been committed to being in downtown Santa Barbara for decades. Regardless, this positive absorption in Goleta will be offset as Herbl, a Cannabis distribution company, closes shop and vacates three industrial buildings on Ward Drive totaling over 50,000 SF. Smaller industrial spaces continue to be in high demand but we see the larger format spaces softening slightly for the latter part of 2023 with rates remaining flat or declining slightly.

Retail

Retail leasing proved active on the South Coast, although most of this activity remains in smaller storefronts.

During the second quarter of 2023, there were a total of 10 new retail leases signed in Santa Barbara totaling approx. 16,372 SF, with lowever absorption than the 11 retail leases in Q1 2023 (33,800 SF). Deals ranged in size from approx. 758 SF to 2,828 SF, with the largest lease at 1719-1721 State St. (2,828 SF). While not a new lease, a notable renewal was by O' My Sole at 1021 State St. who made it through their first year of operation and had the confidence to continue operating downtown for three more years.

The fitness industry remains active in Santa Barbara with various new leases signed in the market. Prevail Conditioning is moving from their long-term industrial space at 126 E. Haley St. into an upper State Street retail building at 3445 State St. The façade remodel on this building has proven to be successful for these owners, as they have stabilized the property with multiple local tenants. Studio X Sculpt Pilates secured a five-year lease at Magnolia Shopping Center, adding a second location to the market with their existing space at La Cumbre Plaza.

Retail space in Montecito and Summerland remains slim, with one of the very few new leases being signed at 2476 Lillie Ave. by Juniper, the local clothing boutique who moved from the Starbucks Center in Montecito. If inventory were more prevalent, leasing activity would be less stagnant although it is a positive sign for businesses who have secured space in Montecito and Summerland.

Although absorption was low in Q2, the overall Santa Barbara retail vacancy rate dropped from 2.6% to 2.0%. Asking rates for Santa Barbara retail are averaging $4.25/SF Gross Equivalent (Base Rent + NNN) which was slightly down from $4.31/SF in Q1 2023. Achieved rates decreased dramatically from $4.80/SF Gross Equivalent to $3.16/SF Gross Equivalent in Q1. However, this decrease can be attributed to the lack of deals completed in Montecito where rents have skewed the average achieved rates in recent years.

Retail leasing activity in Q2 2023 highlights the current market conditions where small, efficient retail space continues to be desirable for businesses looking to keep their overhead manageable. We will likely continue to see large spaces over 5,000 SF sit vacant until national credit tenants regain confidence in the Santa Barbara market.

Q2 South Coast Leasing Summary

Leased | 26 Castilian Dr. (D), Goleta
±11,126 SF Industrial
4/6/2023 (MOS Equipment)

Sublease | 6500 Hollister Ave. (120)
Goleta, ±5,784 SF Office
5/3/2023 (SEE International)

Leased | 402 E. Gutierrez St., Santa Barbara, ±13,667 SF Industrial
6/8/2023 (SCP Distributors)

Leased | 1332 Anacapa St.
Santa Barbara, ±9,268 SF Office
4/25/23 (Morgan Stanley)

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