

# SALES MOMENTUM SLOWS IN Q2

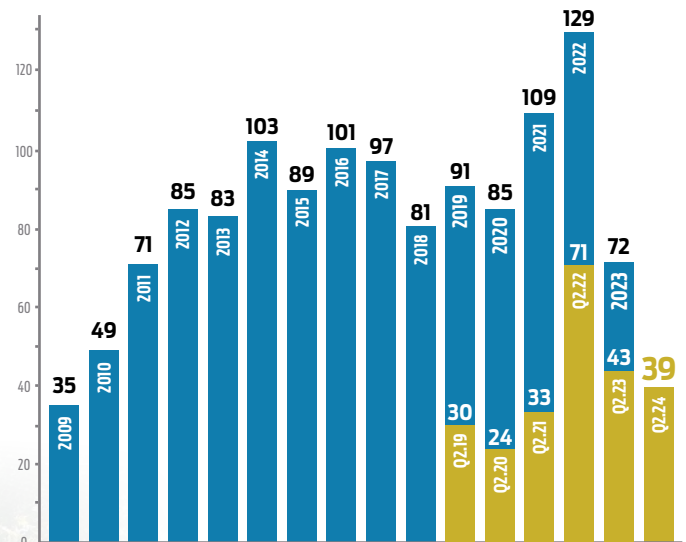
**Uncertainty over interest rates and coming election continues to impact South Coast commercial real estate dealmaking**

Coming off seemingly solid market momentum we experienced during the first quarter of 2024, in part driven by projected interest rate cuts, unfortunately the second quarter resulted in less than typical activity due to the unexpected rise in rates during the quarter. The 10-year treasury increased approximately 70 basis points between the months of April and May, negatively impacting demand in commercial real estate capital markets during the quarter.

**6338 Lindmar Dr., Goleta**  
**66,178 SF Industrial**  
5/7/2024



**2024 South Coast Commercial Sales**



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

As such we saw only 17 commercial sale transactions in the South Coast during Q2, the lowest Q2 total over the past three years, and a drop from the 22 sales recorded during the first quarter. Total commercial sales volume came in at just \$37.1 million (excluding hospitality deals), resulting in the second consecutive quarter of decreasing dollar volume (\$59 million in Q1,

*Commercial Sales Summary Continued on P.2*

**Quick Stats**

**17**

#Q2 SALES (2024)  
vs. 24 in Q2 2023

**53%**

9 OWNER-USER SALES VS. 8 INVESTORS

**\$37.1MM**

Q2 2024 SALES VOLUME vs. \$96MM (Q2 2023)  
*Excluding Hotel Sales*

**7**

INDUSTRIAL SALES or 41% of Q2 DEALS

Q2 Commercial Sales Summary

*Continued from P.1*

and \$68.5 million in Q4 '23). Breaking down second quarter sales by property type, we recorded seven (7) industrial, six (6) office, two (2) retail, one (1) land and one (1) hospitality sales.

The two most interesting deals of the quarter were both in Goleta; 6338 Lindmar Dr., a 66,178 SF industrial building purchased by an owner-user; and the Hampton Inn at 5665 Hollister Ave., a 101-key hotel purchased for \$19,925,000 by Gemini Hotel Group, a private equity fund that invests in institutional-quality hotels.

In addition to interest rate sensitivity, some of the other challenges impacting commercial sales in the South Coast include an increase in inventory on the market across all asset classes, weakened buyer demand and specifically a lack of 1031 exchanges in the market, and lack of overall market confidence due to uncertainties in the political environment as we head to November's election. That said, one bright spot is increased owner-user sales (there were nine owner-user and eight investor sales during the quarter), which is a very good sign of an easing SBA lending market and robust business environment. In conjunction with this, demand for industrial properties remains active, and while it's a scarce product in our market, industrial deals accounted for 53% of the second quarter's volume.

As we move through the third quarter, the forecast for the second half of the year remains generally positive, even while the market remains fickle based on volatility in the stock market and the uncertainty around the upcoming election. For real estate, the anticipation of a more-than-likely interest rate cut by September has already begun to swing momentum in the market. Historically the second half of the year

**5665 Hollister Ave., Goleta**  
**The Hampton Inn · 101 Keys**  
**\$19,925,000 (5/20/2024)**



**5387 Overpass Rd., Goleta**  
**9,900 SF Industrial Building**  
**\$3,000,000 (4/5/2024)**



is always the more active half, but with tepid sales activity during the first six months of 2024, at the moment we are not on track to hit the market's 15-year average of 85 total annual sales.

Q2 South Coast Leasing Summary

2024 So. Coast Leasing Quick Stats

VACANCY

	Q1.24	Q2.24
OFFICE		
Santa Barbara	9.6%	10.8%
Goleta	8.6%	7.1%
Carpinteria	29.4%	25.0%
INDUSTRIAL		
Santa Barbara	0.8%	1.4%
Goleta	2.6%	2.2%
Carpinteria	1.5%	1.5%
RETAIL		
Santa Barbara	2.5%	2.6%

GROSS ABSORPTION (SF)

	Q1.24	Q2.24
OFFICE		
Santa Barbara	42,500	70,600
Goleta	21,000	27,000
Carpinteria	0	600
INDUSTRIAL		
Santa Barbara	10,500	6,700
Goleta	13,600	73,000
Carpinteria	2,800	11,300
RETAIL		
Santa Barbara	27,700	24,600

AVG. GROSS ASKING RATES (\$/SF)

	Q1.24	Q2.24
OFFICE		
Santa Barbara	\$3.15	\$3.15
Goleta	\$2.22	\$2.23
Carpinteria	\$2.61	\$2.65
INDUSTRIAL		
Santa Barbara	\$2.79	\$2.94
Goleta	\$2.03	\$1.86
Carpinteria	\$1.33	\$1.30
RETAIL		
Santa Barbara	\$4.24	\$4.22

AVG. GROSS ACHIEVED RATES (\$/SF)

	Q1.24	Q2.24
OFFICE		
Santa Barbara	\$3.01	\$3.23
Goleta	\$2.55	\$2.34
Carpinteria	N/A	\$1.95
INDUSTRIAL		
Santa Barbara	\$1.86	\$2.66
Goleta	\$2.14	\$1.90
Carpinteria	\$1.62	\$1.05
RETAIL		
Santa Barbara	\$3.44	\$3.60

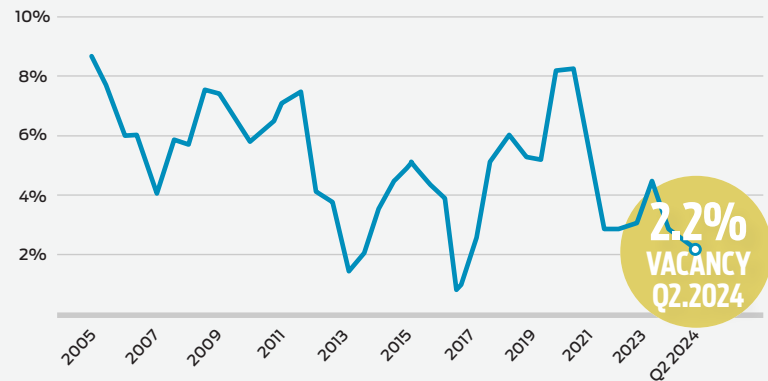
Office

Santa Barbara's office vacancy rate ticked up from 9.6% to 10.8% over the second quarter of 2024. The volume of new leases signed between April and June (32 Leases / 70,551 SF) couldn't quite keep up with new-to-market listings (30 Availabilities / 93,605 SF). The largest new lease of the quarter was executed by Community Action of Santa Barbara who took 11,500 SF at 610 Anacapa St., followed by a sublease of 9,673 SF at 819 Reddick St.

Meanwhile Goleta's office vacancy rate moved the opposite direction, dropping from 8.6% in Q1 to 7.1% by the end of Q2, the submarket's lowest vacancy rate since the middle of 2022. The largest new lease of the quarter was Aptitude Medical Systems expanding into 12,978 SF of new space at 175 Cremona Dr., while the two largest available spaces remain the sublease opportunities at 50 Castilian Dr. (AppFolio's 43,655 SF) and 425 Pine Ave. (22,964 SF). And on the renewals side, Raytheon renewed their 15,036 SF space at 115 Robin Hill Rd.

Finally in Carpinteria, the office vacancy rate came down a bit on paper from 29.4% in Q1 to 25% to end Q2, though there remained relatively little leasing activity during the quarter. In fact the vacancy rate has hovered between 25% and 31% since Q4 2022. But remember, given the submarket's limited inventory, vacancy can reverse course dramatically when just a few larger spaces lease or come to market. As such, ProCore's sublease opportunity of nearly 80,000 SF on the bluffs continues to keep vacancy at all-time highs.

Goleta Industrial Vacancy



Industrial

The South Coast industrial sector, on the other hand, continues to fare better than office with low vacancy rates across the three submarkets. During Q2 there were five new industrial leases in Santa Barbara, though all were under 2,000 SF. The largest was for 1,960 SF at 425 E. Montecito St., and the average lease rate of these transactions was \$2.66/SF Gross. This continues to demonstrate the high demand for small industrial spaces in this submarket, as the vacancy rate remains low at 1.4%. Moving on to Goleta, the industrial vacancy rate now sits at just 2.2%, the submarket's lowest vacancy in seven years going back to Q2 2017. The headline lease of the quarter was Redwire taking the 42,611 SF building

Leasing Summary Continued on P.4

## Q2 South Coast Leasing Summary

Continued from P.3

at 326 Bollay Dr., which had been vacant for years. New leases totaled nearly 73,000 SF during the quarter. Arthrex also leased 17,224 of expansion space at 749 Ward Dr. There remains about 93,000 SF of industrial space on the market, of which about 20,000 SF of mostly warehouse space came to market during the second quarter.

Down to Carpinteria, the vacancy rate remained low during the first quarter, staying flat from Q1 at 1.5%. The largest (and only) new industrial lease was for an 11,259 SF storage space at 1130 Mark Ave. There are only two available spaces on market including 13,000 SF at 6155 Carpinteria Ave. and 5,795 SF at 5045 6th St.

### Retail

Retail leasing activity remained robust in the Santa Barbara market, with a steady absorption of smaller retail spaces throughout the area. In the second quarter of 2024, the market recorded 14 new retail leases, totaling approximately 22,613 SF.

The most significant and impactful lease was secured by Faherty Brand at 1155 Coast Village Rd. The popular beach-inspired clothing company had been eyeing the Santa Barbara market for some time, and Montecito's robust demographics provided the confidence to commit to the 3,400 SF space formerly occupied by MARCUS. The rapid growth of retail on Coast Village Rd. and in Montecito is evident, with many creditworthy tenants actively seeking space. As this upscale market continues to thrive, it will be interesting to see if it can sustain further growth. Although luxury markets like Montecito can be somewhat insulated from a weakening economy, the influx of new retail space within high-profile developments such as the Rosewood Miramar, Four Seasons Biltmore, and The Post will be a true test of the trade area's strength.

Faherty is not the only national retailer making moves in Santa Barbara. While many national brands have been hesitant to invest in downtown State Street in recent years, for example, the second-largest lease of Q2 was signed by ALO Yoga. The trendy athleisure brand will open a 3,327 SF store at 821 State St., setting the stage for healthy competition with Vuori, which recently opened a new store just a few blocks away. The 821 State St. property, previously occupied by Sur La Table, was recently purchased and converted into a mixed-use development with 14 affordable housing units and a smaller retail footprint. Now anchored by the popular yoga brand, this project serves as a key example of how adaptive reuse can reinvigorate underutilized real estate.

As the city navigates the complexities of the State Street Master Plan, the private sector continues to push forward in downtown Santa Barbara, with five additional retail leases secured on State Street during Q2. With more opportunities for State Street frontage, businesses are



**Leased | 326 Bollay Dr., Goleta**  
±42,611 SF Industrial  
5/21/2024 (Redwire)



**Leased | 175 Cremona Dr., Goleta**  
±12,978 SF Office  
6/11/2024 (Aptitude Medical Systems)



**Leased | 602 Anacapa St., Santa Barbara**  
±11,500 SF Office  
4/12/2024 (Community Action Comm.)



**Leased | 1130 Mark Ave. Carpinteria**  
±11,259 SF Industrial  
5/1/2024



**Leased | 1155 Coast Village Rd., Montecito**  
±3,400 SF Retail  
6/27/2024 (Faherty Brand)



**Leased | 821 State St. Santa Barbara**  
±3,327 SF Retail  
5/20/2024 (Alo Yoga)

likely to consider relocating for increased visibility, expressing optimism for the revitalization of downtown. However, since all recent leases have been for spaces under 3,000 SF, the corridor's many large vacant storefronts continue to cast a shadow over the market, and adaptive reuse projects remain viable for only a limited number of properties.

Despite the active leasing of smaller retail spaces in the first half of the year, the overall vacancy rate saw little change, inching up slightly from 2.5% to 2.6%. During Q2 2024, asking rents for retail space in Santa Barbara averaged \$4.22/SF Gross, while achieved rates increased from \$3.44 to \$3.60/SF. This modest rise in achieved rates was largely driven by the Faherty Brand lease, which confirmed a new benchmark for market rents in Montecito.

While challenges remain, particularly with larger vacant storefronts and the uncertainties surrounding the State Street Master Plan, interest from national brands and the absorption of key spaces indicate a resilient and evolving market. As Santa Barbara navigates economic pressures and urban development, the next few years will be crucial in determining whether this positive momentum can shift the narrative surrounding downtown State Street. With increased focus on downtown, the city will need to balance its resources to support small businesses and ensure that other trade areas do not suffer as a result.