

Q3 Commercial Sales Soften

2022 still on track to surpass 2021's record 109 transactions

The South Coast commercial sales market has certainly shifted since our last report, and while there remains healthy activity and some significant transactions to note, the third quarter activity demonstrated contraction in the market and points toward a likely quieter second half of the year in comparison to last year.

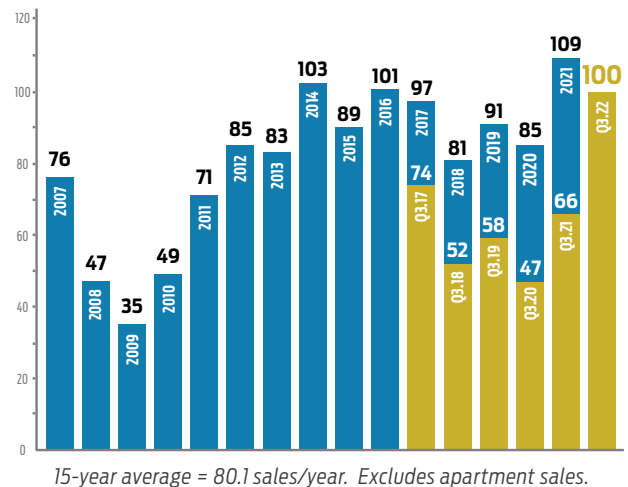
There were 29 commercial sales during Q3, resulting in a dollar volume of \$108MM (excluding hotel sales volume), which is 34% less in number of sales than Q2 (41 sales) and 58% less in sales volume (\$254MM). While it may appear total dollar volume is down significantly quarter-to-quarter, it should be noted that the Q2 sale of the QAD Campus for \$104MM represented 41% of last quarter's total volume, and nearly matched the entire volume for the 3rd quarter on its own. For further comparison, Q1's totals were \$152MM / 30 sales. Additionally, we've already surpassed the 15-yr. average of 80 sales per year, climbing to 100 total by the end of the third quarter.

The transaction breakdown by asset class shows 9 office, 9 retail, 6 industrial, 3 land, 1 self-storage and 1 hospitality sale. While it's surprising that retail and office led the way, it's important to note that all but one of the retail transactions were driven by exchange buyers or were purchased with a plan to reposition the property, and 6 out of the 9 office sales were bought by owner-users. Investors took down the bulk of the transactions (19 investors / 10 owner-users) which is a continuing trend over the past few quarters and is attributed mostly to 1031-exchange money in the market.

**Riviera Business Park • 2020-2060 Alameda Padre Serra
Santa Barbara | 92,744 SF Office Campus on 8.63 Acres
\$26,825,000 • \$289/SF (7/22/2022)**



2022 South Coast Commercial Sales



Other trends and highlights include another beachside hotel (Blue Sands Inn) trading for \$5.9MM in an off-market deal, and the Riviera Business Park, a trophy property, selling off-market for \$26.8MM. Ten (10) of the 29 properties traded off-market. A lack of inventory still exists, and although the buyer pool has thinned, there is still healthy demand for quality assets.

In light of the recent economic climate, here's what we've been experiencing: Asking prices have adjusted somewhat

Commercial Sales Summary Continued on P.2

Q3
Quick
Stats

29

Q3.22 SALES
VS. 33 Q3.21

66%

INVESTOR SALES (19)
VS. OWNER-USER (10)

\$108MM

Q3 SALES VOLUME
VS. \$89.4MM Q3.21
(Excludes Hotel Sales Volume)

100

TOTAL SALES Q1-Q3
SURPASSING 15-YR ANNUAL
AVERAGE 80 SALES/YR

Continued from P.1

with cap rates increasing slightly on stabilized deals, but it is still too early to tell where the benchmark will end up. In addition to properties staying on the market for longer, re-trading prices and escrow cancellations have been more common. Furthermore, the doubling of interest rates has caused investors to adjust underwriting, often while they're in escrow, and almost any deal that requires financing is a moving target. While rates remain the biggest factor affecting the market, there are other elements that have influence, including the stock market, geopolitical landscape and inflated prices of fuel and other goods.

As we enter the final quarter of 2022, we will be paying close attention to what the Fed does next with rates and how the market responds. We are seemingly closer to getting over the hump of initial shock from rate increases, but will certainly have more headwinds to face if rates continue to rise. The market will look to exchange buyers, cash buyers and assets with pricing that meets the market expectations to fuel activity.

Notable Q3 2022 Sales

- **Riviera Business Park** ▪ 92,744 SF Office Campus (\$26.8MM) *Off-market*
- **801 Linden Ave.** ▪ Single-Tenant Rite Aid Property (\$4.85MM)
- **2165 Ortega Hill Rd.** ▪ 41-Unit Self Storage Facility (\$4.35MM) *Traded \$500k above asking*
- **421 S. Milpas St.** ▪ Blue Sands Inn (\$5.995MM) *Off-market*

Q3 Commercial Sales Summary

801 Linden Ave., Carpinteria
RiteAid Building | ±7,300 SF
\$4,850,000 (7/14/2022)



2165 Ortega Hill Rd., Summerland
Self Storage | 41 Units | \$4,350,000 (8/5/2022)



421 S. Milpas St., Santa Barbara
Blue Sands Inn | 12 Keys | \$5,995,000 (8/19/2022)



Q3 Multifamily Sales Summary

Santa Barbara South County

We continue to see strong buyer demand for Multi-Family properties in Santa Barbara South County, as well as very little inventory coming to the market at this time. A total of seven (7) 5+ unit investment properties were sold in Q3 of 2022 in all of the South Coast, and another three entering escrow with an expected close date in Q4. Five of these South County sales were in the City of Santa Barbara, with the largest of all being a 10-unit property at 515 E. Arrellaga St. which traded for \$6,595,000 (\$695,500/unit) at a CAP rate of 3.54%.

There is still the occasional off-market transaction but properties that come to market are seeing a significant amount of activity, to the benefit of sellers, who are receiving top-of-market pricing with favorable transaction terms. This is a reflection of the highly competitive buyer pool who are willing to pay top dollar for investment properties. Other factors such as the looming concern over new rent control restrictions as well as rising interest rates have not deterred investors in the market at this time.

Both Montecito and Isla Vista recorded one 5+ unit sale each during Q3, while there were none in Summerland or Carpinteria. A 5-unit property located at 126 Loureyro Rd., Montecito sold for \$3,950,000. And in Isla Vista, on the first day of the quarter a portfolio closed, comprising properties at 6692 Trigo Rd., 6753 Trigo Rd. and 6765 Sabado Tarde which cumulatively sold for \$4,795,000. A notable 11-unit property located at 850 Camino Pescadero, listed at \$4,000,000 (\$363,000/unit), entered into contract in Q3 and is expected to close early in Q4. This offering commanded multiple offers and especially strong interest from local buyers. On that note, we continue to see strong demand for student housing investments in our market, to the benefit of current owners who are willing to entertain offers.

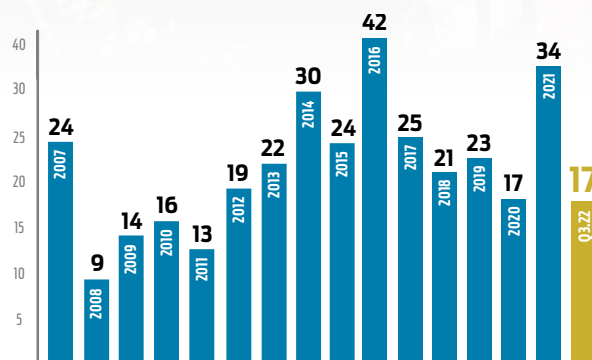
While on the subject of student housing, a notable development has taken shape at UCSB regarding Munger Hall. The latest proposal has

515 E. Arrellaga St., Santa Barbara

10 Units | \$6,595,000 (\$659,500/Unit) 3.54% Cap
9/21/2022



2022 South County Multifamily Sales



Sales of Multifamily properties 5+ Units in size

been downsized from 4,500 beds to 3,500 beds and has also been reduced from 11 stories to 9 according to UCSB media relations. The project was originally expected to break ground in early 2023 and is now expected at the earliest to break ground in the summer of 2023, as recently reported by the Pacific Coast Business Times.

In the 2-4 unit category, properties are still commanding much attention. In the City of Santa Barbara alone there were a total of 18 properties in this size range that sold during Q3 with an average price per unit of \$782,452.

The City of Santa Barbara's apartment rental vacancy rate is still currently in the 2% range for Q3 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 rise to new market highs when properties do come available.

Santa Barbara North County

Moving on to North County, it was a bit of a quiet quarter for larger Multi-Family assets in Q3 with zero sales of properties in the 5+ unit range. This includes all of the Santa Maria, Orcutt and Lompoc area. However we did see a 2-property portfolio come on the market in Q3, comprising properties at 115-213 Mary Dr. (27 units) & 618 E. Mill St. (10 units), both in Santa Maria. This portfolio received multiple offers and is expected to close above the \$6,450,000 asking price. This is yet another example of strong demand for property throughout the entire county.

Multifamily Sales Summary Continued on P.4

Q3 Multifamily Sales Summary

Continued from P.3

W. Ventura County

Meanwhile down in West Ventura County we saw 14 transactions during Q3. In recent months the City of Ventura has been gaining a good deal of interest from both renters and investors alike. With the vacancy rate in W. Ventura County hovering around 3%, there is an influx of tenant interest moving to this region. Of the 14 sales in Q3, nine were in the City of Oxnard. The largest transaction was 164 units at 3040 N. Oxnard Blvd. which sold for \$93,000,000 (\$567,073/Unit) at a 3.60% CAP Rate.

San Luis Obispo County

Finally in San Luis Obispo County, the rental vacancy rate has dropped over the past year and is now current slightly above 3% in Q3 of 2022. Within the City of San Luis Obispo, there were two Multi-Family transactions, the larger being a 19-unit property at 1703 Santa Barbara Ave. The second sale was six units at 383 Lemon St. Just as in the rest of the markets in our region, there remains strong demand from investors in the SLO market but very limited opportunities.

Paso Robles did see one large, noteworthy transaction: the Blue Oak Apartment Complex located at 710 Experimental Station Rd. This 142 unit apartment complex sold on August 22 for \$73,000,000 (\$514,084/unit) at a 3.7% CAP rate. The property, which sits on 12.2 acres, is relatively new with construction completed in 2019.

In Summary Heading into Q4 there remain a number of exchange buyers in the market with very little inventory to satisfy demand. Properties with low interest rates and assumable loans have been of great interest to investors in this current market with interest rates being the hot topic of conversation. As we have seen in the past, Santa Barbara will still trade at lower cap rates than the national average due to our very strong rental market and very low inventory. Strong Multi-family fundamentals keep this category a very safe investment type in our market. That said, with the uncertainty in the market based on the current interest rate landscape, some investors are waiting to see how the market settles during this period. There are a number of properties that are still good buys that are coming to market. We expect transaction velocity to be slightly reduced, but still good, going into next year due to this “price discovery” period that both buyers and sellers are currently working through.

126 Loureyro Rd., Montecito
5 Units | \$3,950,500
7/18/2022



2022 SO. COAST LEASING QUICK STATS

Vacancy

		Q2.22	Q3.22
OFFICE	Santa Barbara	8.5%	8.8%
	Goleta	5.8%	8.4%
	Carpinteria	12.6%	18.0%
INDUSTRIAL	Santa Barbara	0.5%	0.7%
	Goleta	2.8%	2.8%
	Carpinteria	2.4%	3.5%
RETAIL	Santa Barbara	2.6%	2.7%

Quarterly Absorption (SF)

		Q2.22	Q3.22
OFFICE	Santa Barbara	119,500	39,900
	Goleta	16,600	16,300
	Carpinteria	3,500	6,000
INDUSTRIAL	Santa Barbara	24,800	27,500
	Goleta	54,400	36,800
	Carpinteria	2,000	10,000
RETAIL	Santa Barbara	31,000	18,000

Avg. Gross Asking Rates (\$/SF)

		Q2.22	Q3.22
OFFICE	Santa Barbara	\$3.27	\$3.30
	Goleta	\$2.04	\$2.08
	Carpinteria	\$2.20	\$2.51
INDUSTRIAL	Santa Barbara	\$2.81	\$2.73
	Goleta	\$1.98	\$1.89
	Carpinteria	\$1.87	\$1.93
RETAIL	Santa Barbara	\$4.28	\$4.42

Avg. Gross Achieved Rates (\$/SF)

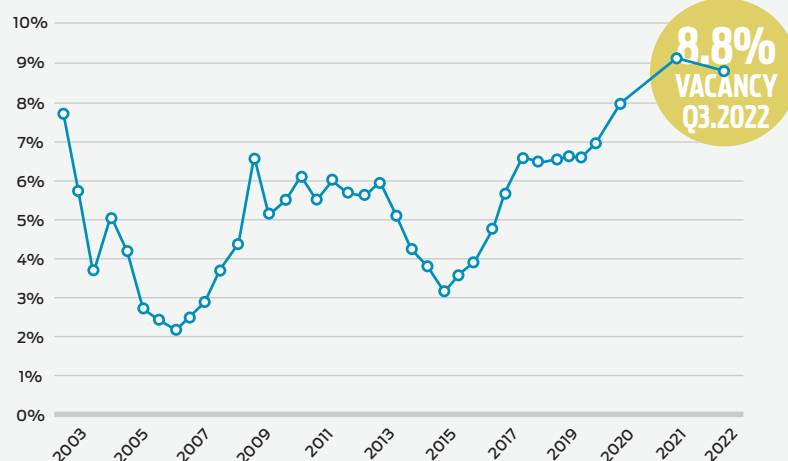
		Q2.22	Q3.22
OFFICE	Santa Barbara	\$3.21	\$2.97
	Goleta	\$1.90	\$1.94
	Carpinteria	\$1.75	\$1.96
INDUSTRIAL	Santa Barbara	\$2.40	\$2.10
	Goleta	\$1.68	\$1.82
	Carpinteria	\$1.65	\$1.58
RETAIL	Santa Barbara	\$3.51	\$3.15

Q3 South Coast Leasing Summary

Office

Santa Barbara's office market remains the strongest office market on the South Coast, with the quarterly vacancy rate now at 8.8% and holding stable at the center of a 4-percentage-point spread since the beginning of 2020 (High: 10.8% in Q2/2021; Low: 6.8% in Q1/2020). Most of the office spaces in Santa Barbara are smaller than 5,000 sq. ft., and smaller floorplates have remained in higher demand than some of the much larger office spaces in neighboring Goleta and Carpinteria. During Q3 the largest two office leases in Santa Barbara were for 7,677 SF at 1101 Anacapa St. and 6,360 SF at 820 State St. Both leases were for Class A space. High end office space remains more appealing than lower quality space which, regardless of size, simply is not in demand. Additionally, as noted in previous reports, the current vacancy rate of 8.8% includes approx. 87,500 SF of the former downtown Macy's building, but does not yet contain any office square footage at the former Nordstrom building in the same mall, as that space is 12+ months from completion.

SANTA BARBARA OFFICE VACANCY



Sometimes the numbers do not tell the entire story as is the case in Goleta, where the office vacancy rate currently sits at 8.4% (near the 20-year average). The winds have shifted and this vacancy rate seems poised to increase as there are very few tenants in the marketplace. Much of the Goleta marketplace has been occupied by "tech office" tenants and many of these companies have not returned to the office. Recently Appfolio brought 90,000 SF to market for sublease on Castilian Drive. The 46,000 SF building at 6750 Navigator Way in the Cabrillo Business Park was fully leased before COVID and now it's 100% vacant.

In Goleta there were no new or direct leases over 2,000 SF during Q3, a sign of the current limited tenant pool. There was a 5,755 SF sublease at 125 Cremona Dr. (Madecraft) and a 3,441 SF renewal at 6144 Calle Real (ParentSquare).

Leasing Summary Continued on P.6

Continued from P.5

Meanwhile in Carpinteria, the vacancy rate jumped from 12.6% in Q2 to 18% in Q3, with the average asking rate also bumping up from \$2.20/SF to \$2.51/SF. In a smaller market like Carpinteria with limited inventory, every vacancy makes a splash. This increase in vacancy rate is primarily due to an additional 25,000 SF coming to market at the Procore building at 6267 Carpinteria Ave., which now accounts for 50,000 SF of the total 84,000 SF available in the market. Conversely there were just two new leases signed during the quarter totaling 6,000 SF, with the Channel Islands YMCA taking 5,589 SF at 1180 Eugenia Pl.

Industrial

The industrial leasing sector remains very healthy with low vacancy rates across the board in the South Coast. Santa Barbara's vacancy rate sits below 1% for the sixth consecutive quarter with very few active listings, while both Carpinteria and Goleta continue to hover around 3% with just six (6) total spaces over 10,000 SF between the two submarkets.

Average asking and achieved lease rates were generally flat/stable. Highlight leases during Q3 include 24,000 SF taken by Jordano's at 80 Coromar Dr. in Goleta; 11,945 SF leased by Bella Vista Designs at 1 N. Calle Cesar Chavez; and 6,322 SF taken by Pacific Resources at 1015 & 1017 Mark Ave. in Carpinteria.

The industrial sector continues to be a mix of technology companies and various service industries. With no significant industrial projects coming online we will continue to see low vacancy rates throughout the South Coast and in many cases competitive leasing situations for tenants.

Retail

During the third quarter there were nine (9) new retail leases signed totaling approx. 17,991 SF (five fewer leases than were signed in Q2). These transactions ranged in size from approx. 456 SF – 5,000 SF, with Kickboxer's Inc. taking 5,000 SF at 122 E. Gutierrez St. Other notable leases occurred at 732 State Street where Longoria Wines leased approx. 2,895 SF; 427 State Street where Santa Barbara Axe Club (yes, axe throwing in Santa Barbara) leased approx. 2,500 SF; and 12 W. De La Guerra St. (Pavilion at Paseo Nuevo) where Bruxie's (chicken & waffles) leased approx. 1,893 SF.

On the vacancy front, the Q3 Santa Barbara retail vacancy rate remained relatively flat at 2.7% (2.6% in Q2) while the average asking rate for Santa Barbara nudged up

Q3 South Coast Leasing Summary

Leased | 80 Coromar Dr., Goleta
±24,000 SF Industrial/Warehouse
8/5/2022 (Jordano's)



Expansion | 1 N. Calle Cesar Chavez
Santa Barbara, ±11,945 SF Industrial
8/26/2022 (Bella Vista Designs)



Leased | 1101 Anacapa St.
Santa Barbara, ±7,677 SF Office
7/1/2022 (H2 Clipper)



Leased | 1015 & 1017 Mark Ave.
Carpinteria, ±6,322 SF Industrial
8/1/2022 (Pacific Resources)



Subleased | 125 Cremona Dr., Goleta
±5,755 SF Office
7/15/2022 (Madecraft)



Leased | 122 E. Gutierrez St.
Santa Barbara, ±5,000 SF Retail
9/29/2022 (Kickboxers, Inc.)



to \$4.42/SF Gross Equivalent (Base Rent + NNN). The average achieved rate decreased going from Q2's \$3.51/SF Gross Equivalent to \$3.15/SF Gross Equivalent in Q3. With limited number of lease transactions occurring, achieved rates can fluctuate dramatically. The current \$3.15/SF Gross Equivalent achieved rate is in the range of the \$3.00 – \$4.00/SF Gross Equivalent that we have been tracking since Q4 of 2021. The true market rate of a retail building / space is dictated by the specific location and size of the retail asset (contact your Radius commercial representative regarding your retail property). At the end of Q3 there was approx. 280,000 SF of retail space for lease in Santa Barbara, up from Q2's total of approx. 268,000 SF.

Q3 South Coast Leasing Summary

Downtown State Street Q3 Retail Update

The 2022 summer season ended with an overall increase of available retail storefronts on State Street's Downtown corridor. The number of available storefronts rose to 35 in Q3 from 32 in Q2. Despite this increase, progress was apparent through numerous examples in Q3.

The comeback award for State Street in the past year goes to the 1000 block where there were six (6) vacancies in 2020 and the only remaining vacancy is the former Subway space at 1021 State St. Some speculated that the placement of the Amazon office would help revitalize this block and although the correlation is not definable, the evolution of this block is evident. From a pedestrian eye, the block is not full of life, but with O' My Sole open, L'Antica Pizzeria da Michele coming soon, and Anacapa Architecture in permitting for their office, keep an eye on this block in 2023.

Augie's completion at 700 State St. is a huge step forward in creating an architectural corner-stone for State and Ortega Streets. This highly visible corner draped in original Jeff Shelton design draws focus away from the recently opened 7-Eleven next door. The city should applaud the dedication of the Augie's team for reinvigorating an important downtown location.

The 500 block, known for its restaurants and bar scene, has been one the strongest blocks over the past few years. However, with three vacancies on this block it will be interesting to see the dynamic change. With the Hotel Santa Barbara getting a fresh paint job and Drift Hotel nearing completion, the progressing environment of this block should help buffer the increased vacancy.

With available storefronts increasing in Q3, it was a welcome site to see new leases and stores coming soon to balance things. A few highlights include Longoria Wines leasing the old Wine Therapy space at 732 State St., State Street Axe Club open at 427 State St., and Mokutan Japanese replacing Choppa Poke at 716 State St. Although the city plans to keep the street closed through 2023, a long-term solution remains to be seen as MIG, Inc. consults on the State Street Master Plan.

State Street Retail Vacancy

	Q2.2022	Q3.2022
Total Storefronts	249	249
Storefronts Available For Lease	33	35
Vacancy Rate of Available Storefronts	13.25%	14.06%
Vacant Storefronts	20	21
Perceived Vacancy Rate	8.03%	8.43%
Storefronts Still Occupied by Tenant	3	4
Pop-Up Shops	10	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 9/22/22.

New Leases

During Q3 2022, we observed at least two (2) new retail tenants on downtown State Street:

- **732 St. — Reportedly Longoria Wines (±2,895 SF)**
- **1021 State St. — O' My Sole (±2,500 SF)**
- **Now Open! 427 State St. — Santa Barbara Axe Club**
- **Now Open! 716 State St. — Mokutan Japanese**

VACANT STOREFRONTS BY THE BLOCK

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





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