RADIUS Insight

RADIUS® Commercial Real Estate

SOUTH COAST MARKET REPORT

Q4 2021

Q4 Commercial Sales Summary

So. Coast Sales Buck Pandemic

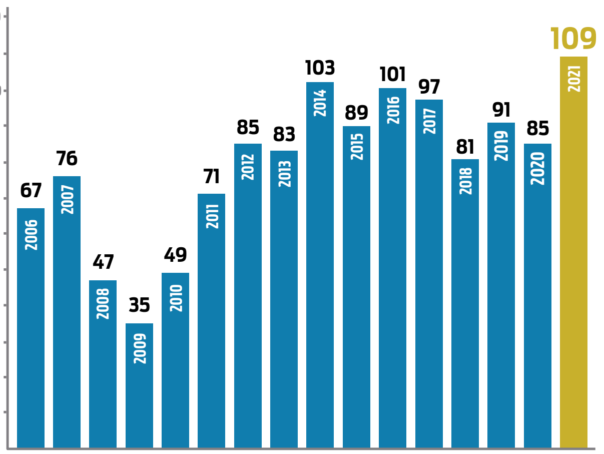
Surge in Q4 deals helps boost 2021 with record 109 sales & $556MM volume

Market trends and momentum persisted on the South Coast throughout the fourth quarter, closing 2021 on a high note and capping a year that produced both a record number of commercial sale transactions and dollar volume.

While Q4 is typically the most active quarter any year, the last three months of 2021 were especially prolific given the current economic climate. Not surprising, there was strong motivation by many to close on deals before year-end, in part fueled by uncertainty of what direction 1031 Exchange and Capital Gains laws were potentially headed in 2022.

The final quarter of 2021 saw a robust 43 total sales with $335MM in volume, compared to Q4 2020 (29 sales at $198MM) and 2019 (32 sales at $217MM). The category breakdown for Q4 split relatively evenly at 11 retail, 11 office and eight (8) industrial sales, followed by six (6) land, four (4) specialty/hospitality, two (2) hotel and one (1) healthcare/convalescent sale.

2021 South Coast Commercial Sales



15-year average = 77.3 sales/year. Excludes apartment sales.

For 2021 in total, there were 109 commercial sales —well above the 15-yr. average of 77.3 sales per year—with dollar volume at $556MM, punctuating the strongest year to date on record for the South Coast. **This represented a 43% annual increase in dollar volume over 2020** which closed with 85 sales at $386.5MM. The previous record was achieved in 2014 which registered 103 sales and $439MM.

In addition to a consistent lack of inventory, there were a handful of other notable trends that persisted throughout 2021. For one, investor buyers dominated the market in comparison to owner-user buyers (30 / 13 respectively), while 37% of all transactions were off-market (16 total). We should emphasize that, contrary to popular belief, most of these off-market properties sold at a premium.

Another noteworthy trend is the increase in number of retail properties sold, with 11 in Q4 alone. Given the state of the retail sector in general, which was exacerbated by the pandemic, it's not surprising that we're seeing increased interest from investors wanting to reposition retail property to other best uses. Case in point being the sale of the Nordstrom building at Paseo Nuevo Mall in downtown Santa Barbara which traded to a group of out-of-market investors. At a $13MM price tag it was relatively small on paper compared to other giant deals during the year, yet it may have an outsized impact on the leasing market moving forward. While new ownership remains hush on their plans, it's very possible we'll see a very large chunk of the 3-story building converted to office use—similar to the former Macy's property in the same mall—driving up an already hefty office vacancy rate. More on that in the office leasing summary of this report.

Apeel Sciences HQ Building · 71 S. Los Carneros Rd., Goleta
±105,257 SF Industrial | $36.2 Million · $344/SF · 5.4% Cap Rate
10/1/2021 (Off Market)

Commercial Sales Summary Continued on P.2

Q4 Commercial Sales Summary

Q4 Quick Stats

16
OFF MARKET SALES (37%)

11
RETAIL & INDUSTRIAL SALES EACH

43
COMMERCIAL SALES
· 109 TOTAL 2021 ·

$335MM
TOTAL SALES VOLUME
· $556MM TOTAL 2021 ·

Continued from P.1

Finally, 2021 saw the local hotel industry bounce back resiliently from COVID. Drive-to tourist markets outside of major cities, such as Santa Barbara, are benefiting from travelers wanting to stay local rather than risk COVID complications by going abroad. As a result, local hotel occupancy rates have returned to near pre-pandemic levels and we are seeing average daily rates (ADR's) for some hotels beat 2019 highs by nearly 20%. Hotels are a great hedge against inflation. As such, there is increased interest from buyers for local hotel assets. During the fourth quarter alone we saw two (2) hotel sales (Hotel Santa Barbara and Hotel Indigo) in a town where typically we see one or two trade in a year. Both hotels received multiple offers and traded at arguably stronger valuations than they would have in 2019. Additionally, there is a 50-bed hotel in West Beach that received multiple offers and is currently in escrow.

Looking forward, the supply and demand fundamentals for quality assets continue to be out of balance, a trend we are seeing nationally, and this looks to continue into 2022. The key element to watch this year will be interest rates, which are expected to rise and will likely affect CAP rates and prices. However, if the current buyer demand persists, the forecast looks to be another strong year on the South Coast.

Notable Q4 Sales

- **3805 State St., Santa Barbara** ▪ ±230,689 SF Retail at La Cumbre Plaza Mall ($64MM) *Off-market*
- **527 State St., Santa Barbara** ▪ 75-key Hotel Santa Barbara ($41.9MM)
- **71 S. Los Carneros Rd., Goleta** ▪ ±105,257 SF Ind./R&D Leased to Apeel Sciences ($36.2MM) *Off-market*
- **121 State St., Santa Barbara** ▪ 41-key Hotel Indigo ($18.75MM)
- **817 State St., Santa Barbara** ▪ Former Nordstrom Building in Paseo Nuevo Mall ($13.09MM)
- **111 E. Victoria St., Santa Barbara** ▪ 19,597 SF "Class A" Downtown Office Building ($12.25MM)
- **21 E Victoria St., Santa Barbara** ▪ 13,784 SF Downtown Office Building ($10.3MM) *Off-market*

La Cumbre Plaza · 3805 State St., Santa Barbara
Retail | ±230,689 SF | $64,000,000
12/6/2021

Hotel Indigo · 121 State St., Santa Barbara
Hospitality | 41 Keys | $18,750,000 · 6.4% Cap Rate
12/29/2021

111 E. Victoria St., Santa Barbara
Office | ±19,597 SF | $12,250,000 | 12/22/2021

Q4 Multifamily Sales Summary

South Santa Barbara County

This tune may sound familiar, but there remains strong demand for multifamily properties in Santa Barbara South County curbed by very little inventory coming to market. That said, a total of 12 investment properties sold in South Santa Barbara County in Q4 of 2021, helping push the year to 34 transactions (with closer to 40 properties changing ownership due to portfolio sales), the market's strongest year since a record 42 sales in 2016. This was also double the number of transactions in 2020 during the height of the Covid-19 pandemic.

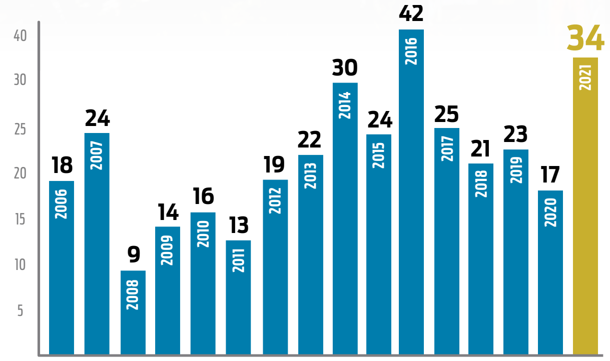
The largest sale of the quarter in the City of Santa Barbara was 28 units at 203 Ladera St. which traded for $10.8MM ($385,714/unit) at a 4.15% cap rate. Summerland had one transaction in Q4 at 156 Olive St. This was an 8-unit multifamily property that traded off-market for $4.5MM ($562,500/unit).

Meanwhile in Isla Vista we saw six (6) total transactions during Q4 with two (2) noteworthy portfolio sales, one comprising three (3) properties and the other five (5). The 3-property portfolio included 6692 Trigo Rd., 6765 Sabado Tarde Rd. and 6753 Trigo Rd., all single-family properties. This student housing asset was listed for $4.75MM. The other portfolio transacted off-market and consisted of five (5) multi-family properties totaling 55 units: 6563 Trigo Rd. (13), 6588 Trigo Rd. (10), 6598 Trigo Rd. (10), 6640 Abrego Rd. (11), and 828 Embarcadero Del Mar (11). This asset sold for $31.25MM ($568,181/unit) at a 3.9% cap rate.

There is still the occasional off-market transaction, but properties that come to market are seeing a large amount of activity, to the benefit of sellers who are receiving top-market pricing and favorable transaction terms. This is a reflection of the competitive buyer pool in the marketplace with many willing to pay top dollar for investment properties. The looming concern over new rent control guidelines in the City of Santa Barbara has not deterred investors in the market at this time, but that could change.

"The Hive" 6563 Trigo Rd., Isla Vista
Part of 55-Unit Portfolio Sale | $31.25MM ($568,181/Unit) 3.9% Cap
10/7/2021

2021 South County Multifamily Sales



Sales of Multifamily properties 5+ Units in size

Finally, the City of Santa Barbara's apartment rental vacancy rate dropped to 2% in Q4 of 2021, its lowest level in recent years. Many factors have contributed to this, one being an influx of new residents during the pandemic who are able to work from home and pay top-end rent for this market rather than living in higher rent cities in the Bay Area or southern California, for example. 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.

North Santa Barbara County

In Q4 Santa Barbara's North County saw five (5) multifamily transactions with three (3) in Santa Maria, including a 22-unit mobile home park at 2401 Preisker Ln., and an 8-unit multifamily building at 194–196 E. Bunny Ave. The 8-unit building sold for $2.5MM ($312,500/Unit) and an actual Cap rate of 3.94%. The largest property that sold in North County was a 197-unit, age 55-plus senior apartment complex located at 1311 W. Battles Rd., which traded for $48MM ($243,654/Unit). This property was built in 2018, and consists of seven buildings totaling 147,750 SF on a 5.68 acre parcel.

Meanwhile in Buellton, a 62-unit multifamily property at 82–90 2nd St., "Avenue Heights Apartments", sold for $16.5MM ($265,540/Unit) at a 4% Cap rate. Situated on over 4.4 acres, this project was built in 2017 by the Santa Ynez Band of Chumash Indians.

Multifamily Summary Continued on P.4

Q4 Multifamily Sales Summary

Continued from P.3

Lompoc's only transaction in Q4 was a 6-unit multi-family building located at 233 N. N St. This property consisted of six (6) 2-bed/1-bath units and sold for $940,000 ($156,667/Unit) at a 3.91% Cap rate.

West Ventura County

Down south to West Ventura County, we saw 14 transactions in Q4. In recent months the City of Ventura has been gaining a good deal of interest from both renters and investors alike. A 32-unit asset located at 3098 Channel Dr., Ventura sold on Dec. 3 for $11.9MM ($372,313/Unit) at a 4.44% Cap rate. The property was originally built in 1966 and was recently remodeled in 2020 and at the time of sale was commanding top-of-market rents.

San Luis Obispo County

Rounding out our Tri-Counties report, San Luis Obispo County saw a total of six (6) transactions of properties 5+ units in size during Q4, including five (5) multifamily buildings and one (1) mobile home. The largest was a 72-unit asset that sold in Paso Robles at 3200 Spring St. for just under $16MM ($221,722/Unit). The City of San Luis Obispo saw two (2) multifamily transactions, one a 7-unit building at 1249 Palm St. that sold for $2.14MM at a 4.0% Cap rate and the other a 6-unit building that sold for just under $1.6MM at a 3.92% Cap rate.

Summary

Moving into 2022 with looming tightening of monetary policy and the expected gradual rising of interest rates, we anticipate these factors having minimal impact on multifamily sales in the SLO, Santa Barbara and Ventura County markets. Multifamily properties historically and currently are a great shelter against inflation relative to other investment categories. Still, if inflation does rise to a level that is outside what is anticipated for 2022, then we may see the Fed raise rates at a much greater clip, thus potentially slowing trading volume at a national level which would certainly trickle down to the local level.

We at Radius expect to see continued buyer demand for multifamily in 2022, again with limited product available which in turn will command top-of-market pricing, similar to what we saw in 2021. We also expect to see transaction volume totals on par with what we saw in 2021 as well as market rental rates continuing to rise. With these factors we should see very limited vacancy which will work to the advantage of current owners who will find increased property values should they entertain offers.

We forecast a vibrant year in 2022 for apartments, with a number of high profile closings happening in the first quarter. At this time the only "negative" is lack of inventory, though this is where it becomes even more imperative to work closely with your broker to find suitable investment properties.

Finally, we must draw attention to the proposed 2% rent cap ordinance on the Santa Barbara City Council's table which would have serious ramifications for the multifamily market as well as the overall housing market should it pass. For more information about the ordinance and how you can voice your opposition to our elected representatives, please reach out to your Radius agent.

Q4 South Coast Leasing Summary

2021 SO. COAST LEASING QUICK STATS

Vacancy

		Q3.21	Q4.21
OFFICE	Santa Barbara	10.2%	9.2%
	Goleta	6.9%	6.6%
	Carpinteria	1.9%	3.9%
INDUSTRIAL	Santa Barbara	0.8%	0.6%
	Goleta	3.0%	2.7%
	Carpinteria	1.7%	3.7%
RETAIL	Santa Barbara	4.3%	3.5%

Quarterly Absorption (SF)

		Q3.21	Q4.21
OFFICE	Santa Barbara	36,400	77,300
	Goleta	45,000	11,100
	Carpinteria	12,100	1,500
INDUSTRIAL	Santa Barbara	0	12,600
	Goleta	31,100	41,800
	Carpinteria	18,700	0
RETAIL	Santa Barbara	21,000	58,300

Avg. Gross Asking Rates ($/SF)

		Q3.21	Q4.21
OFFICE	Santa Barbara	$3.19	$3.26
	Goleta	$2.21	$2.20
	Carpinteria	$2.19	$2.32
INDUSTRIAL	Santa Barbara	$2.33	$2.54
	Goleta	$1.75	$1.61
	Carpinteria	$1.35	$1.78
RETAIL	Santa Barbara	$4.14	$4.21

Avg. Gross Achieved Rates ($/SF)

		Q3.21	Q4.21
OFFICE	Santa Barbara	$2.62	$3.07
	Goleta	$2.09	$2.32
	Carpinteria	$1.85	$2.13
INDUSTRIAL	Santa Barbara	N/A	$1.66
	Goleta	$1.63	$1.52
	Carpinteria	$1.18	N/A
RETAIL	Santa Barbara	$5.75	$3.71

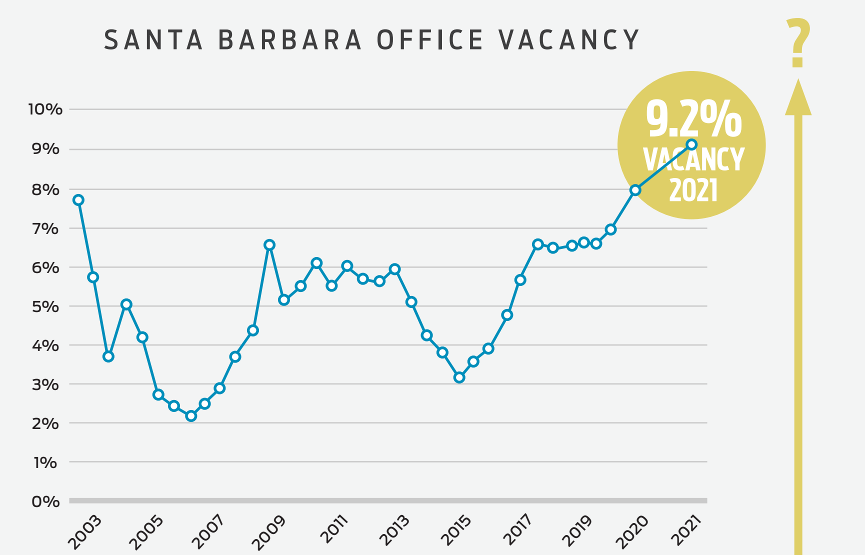
Office

After the high watermark office vacancy rate of 10.8% for Santa Barbara in Q2 2021, this figure edged down over the last two quarters landing at 9.2% to close the year. As noted in previous reports, roughly 87,500 SF of this vacant space sits in the former Macy's building which anchors the Paseo Nuevo Mall and is currently marketed as office use rather than retail. Without this space the vacancy rate would be a more traditional 7.5%.

While we're on the *odd* subject of discussing big box retailers in the office market summary, one new wildcard is portions of the 3-story Nordstrom space in the same mall. We hear the upper levels may come to market for lease as creative office space, though ownership is tight-lipped on plans which could include other uses. If this happens it could mean roughly 100,000 SF of office space hitting the market which will increase vacancy substantially. A hit or miss? Time will tell, but it's encouraging to see investors doing their part to think outside the (big) box to breathe life into the downtown corridor.

While not new leases, the largest office transactions during the fourth quarter included Ontraport extending their lease of 23,000 SF in the Riviera Business Park, followed by Well Health also extending their lease of nearly 15,000 SF at 1025 Chapala St. Though neither deal resulted in

Leasing Summary Continued on P.4



Big (Box) Wildcard?

Santa Barbara's Office Vacancy Rate rose to its highest levels during the pandemic. Now this once-iconic 3-story retail building sits empty awaiting new ownership's plans to help revitalize downtown, a potentially risky move that could flood the market with several thousand more square feet of office space while pushing the vacancy rate to even greater heights.

Q4 South Coast Leasing Summary

Continued from P.3

absorption, it's nevertheless a win when businesses stay in the market and square footage stays out of the vacancy column.

Down to Capinteria, the office vacancy rate currently stands at 3.9%, up slightly from 1.9% at the end of the third quarter. You'd never know vacancy is that tight driving around Carpinteria with parking lots at ProCore and LinkedIn nearly vacant as both continue to operate remotely. The only new lease in Q4 was 1,450 SF at 4195 Carpinteria Ave., while the largest available space is 8,900 SF at 6398 Cindy Ln. Noteworthy is the Q4 sale of the entitled Lagunitas property at 6380 Via Real. Hopefully that 80,000 SF building will be built in the next 18 months.

Moving on to Goleta, the office market continues to tick along with a vacancy rate of 6.6% at year end, lower than the year started. Goleta saw just four (4) new leases in Q4, the largest being the 6,471 SF lease at 150 Castilian Dr., Suite 100 to Serimmune, Inc. There are currently 30 spaces for lease and the vast majority of the vacancies are under 10,000 SF. The largest vacancy on the market is the 38,183 SF at 326 Bollay Dr. We can expect to see the office vacancy rate continue to lower as spaces lease and employees return to work.

Industrial

The South Coast industrial sector continues to remain stable with very low vacancy and steady lease rates. The majority of Q4 leasing activity took place in Goleta with five (5) new leases totaling almost 42,000 SF, including three (3) leases just over 10,000 SF each at 30 S. La Patera Ln., backfilling the space vacated by Skate One. All three leases represented expansions by companies including OSI Hardware. There remains 31,000 SF vacant at this property. The largest Goleta vacancy was 7418 Hollister with 49,000 SF. Vacancy in Goleta dropped to 2.7%in Q4, continuing a strong downward trend from just over 9% in early 2021.

Santa Barbara had two new leases with the largest being Kopu Water at 4179 State St. for 8,617 SF. The quarter ended with five (5) industrial vacancies in the city but that still equates to only a .6% vacancy rate for the market. After years of increasing rates we seem to have stabilized to flat rates in this sector.

Carpinteria, our smallest submarket, did not see any new industrial leases and sits at just four (4) vacancies, the largest at 6384 Via Real with 24,000 SF, but we expect that to lease soon. Carpinteria's industrial vacancy represents 3.7% which was up just slightly for the quarter.

Industrial leasing will continue with stable rates and very limited supply. With ongoing industrial demand, we are hopeful to see new development applications, however there is limited undeveloped industrial land.

Santa Barbara Retail

During the fourth quarter, there were seven (7) new retail leases signed totaling about 58,000 SF (two less than were signed in Q3 but 31,000 SF more of retail absorption). These lease transactions ranged in size from approx. 700–45,000 SF. The most notable was a 45,000 SF lease to Aloha Fun Center at 710 State St. (former Macy's building). It has been reported the tenant will feature roller skating, laser tag and an arcade. Another notable lease occurred at 401 W. Carrillo St. (former Big Brand Tires). That approx. 4,341 SF building was leased to a tenant that will be announced publicly shortly.

Leased | 701 State St., Santa Barbara (1st Floor)
Retail | ±45,000 SF (Aloha Fun Center)

On the vacancy front, Santa Barbara's retail vacancy rate dipped from last quarter's 4.3% to 3.5% (driven mainly by the lease of the former Macy's building). With this drop in vacancy rate, not surprisingly asking rates have ticked upward from Q3's $4.14/SF Gross Equivalent to this quarter's $4.21/SF Gross Equivalent (Base Rent + NNN). Achieved Rates declined fairly substantially going from Q3's $5.75/SF Gross Equivalent to $3.71/SF in Q4. With limited lease transactions occurring, achieved rates can fluctuate dramatically. The current $3.71/SF is in line with the $3–$4 Gross Equivalent achieved rates we have been tracking since Q4 2020. The true market rate of a retail building/space is dictated by the specific location and size of the retail asset (contact your Radius representative regarding your retail property).

By the end of Q4 there was approx. 372,000 SF of retail space for lease in Santa Barbara (down from Q3's 449,000 SF). With leasing of 45,000 SF of the old Macy's space and the recent Q1 2022 leasing of approx. 70,000 SF of the old Sears property in La Cumbre Plaza, expect retail vacancy possibly to continue downward locally as we move through 2022.

One thing to keep an eye on is how the new owner of the approx. 175,000 SF Nordstrom property in downtown Santa Barbara will choose to market that property. It has been reported that the owner, who acquired the long-term ground lease of the property in Q4 2021, "believes there is a better use of this space than big-box retail, which has been highly impacted by e-commerce." They have stated that their plan "might include a smaller amount of retail, or no retail, and other uses including creative office" and that their goal is to "breathe new life into the building and the surrounding neighborhood." How this space ends up being marketed will dramatically impact the supply of vacant space and the vacancy rate of either Santa Barbara retail or downtown Santa Barbara office during 2022, as mentioned above.

Q4 South Coast Leasing Summary

Downtown State Street Q4 Retail Update

The end of 2021 was capped by an overall increase of available spaces on State Street. This was a discouraging sign as the city continues to strategize on solutions for a complex downtown economy. Two more restaurant closures along with various restaurants building for sale further highlight the difficulty attracting consistent patrons to our local eateries who cannot sustain purely off tourism.

However, there was some progress seen in Q4 as a one-year lease was signed for Aloha Fun Center the first floor at 701 State St. (the former home of Macy's in the Paseo Nuevo Mall) which will bring some much needed family entertainment to the Downtown area. The Arts District continues to grow with Galerie XX Art Gallery open soon at 1315 State St., along with Maune Contemporary who is now open at 1309 State St. Three new restaurants also are a welcome sight as Bedda Mia plans to open at the former Mollie's at 1218 State St., Broad Street Oyster Co. takes over the Cubaneo space at 418 State St., and Rare Society Steak plans to open at The Project at 214 State St. Looking ahead, we expect 2022 will see a number of other restaurant changes along State Street with some additional activity in the hospitality sector.

State Street Retail Vacancy

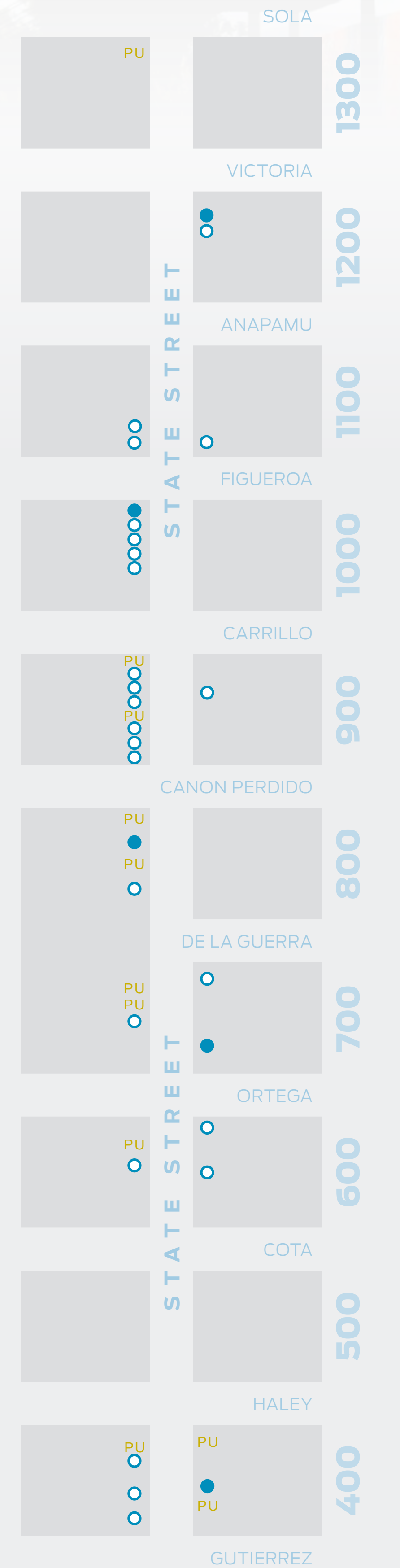
	Q3.2021	Q4.2021
Total Storefronts	249	249
Storefronts Available For Lease	38	40
Vacancy Rate of Storefronts Available For Lease	15.26%	16.06%
Vacant Storefronts	22	24
Perceived Vacancy Rate	8.84%	**9.64% ▲**
Storefronts Still Occupied by Tenant	4	4
Pop-Up Shops	12	12

*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 1/5/2022*

New Leases

During Q4 2021 (through 1/5/2022), we observed at least three (3) new retail tenants on downtown State Street:

- **701 State St. (1st Flr.) — ±45,000 SF *(Aloha Fun Center)***
- **1315 State St. — ±3,600 SF *(Galerie XX Art Gallery)***
- **1218 State St. — ±2,565 SF *(Former Mollie's became Bedda Mia)***



VACANT STOREFRONTS BY THE BLOCK

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

#1

PACBIZTIMES
Top Commercial Real Estate Deal
· 2021 DEALMAKERS ·

82

COMMERCIAL REAL ESTATE LAND & BUSINESS SALES 2021

11 Sales over $10 million

OVER

473

MILLION DOLLARS
2021 TOTAL SALES VOLUME

TEAM RADIUS

Strength in numbers.

128

NEW LEASES 2021

· 445,000+ SF BUILDINGS ·

· 1.3MM+ SF LAND LEASES ·

Over $61 Million in Transaction Value

22

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