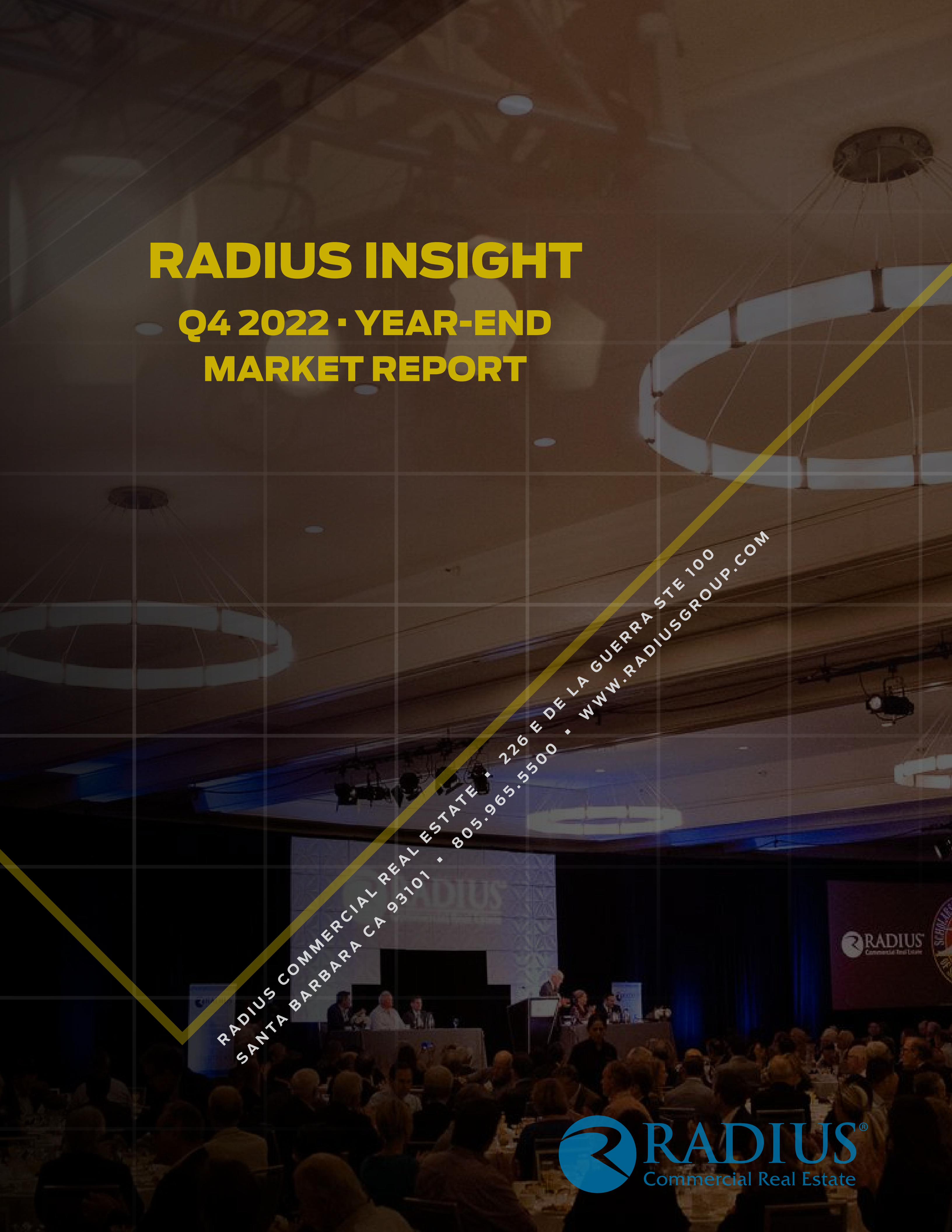

# RADIUS INSIGHT

## Q4 2022 · YEAR-END MARKET REPORT

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RADIUS® Commercial Real Estate

**QAD Campus · 100–101 Innovation Pl., Summerland**
**122,925 SF Office Complex · $104,000,000 · $846/SF (6.22.22)**

**Steve Brown**
**Miles Waters**
**Jon Ohlgren**

# Sales
COMMERCIAL

# RECORD SETTING YEAR DESPITE Q3-4 SOFTENING

**On the heels of a record-setting 2021 and a robust first half of 2022 in which we witnessed the most Q1 commercial sales (31) in the past five years, and a stellar Q2 that produced the mammoth $104 million QAD Campus sale and total sales volume of $254 million, the market noticeably cooled during the third and fourth quarters. While 4th Quarter figures in particular came back down to Earth and were the lightest of the year, they reflect a more accurate picture of what's going on in the current market.**

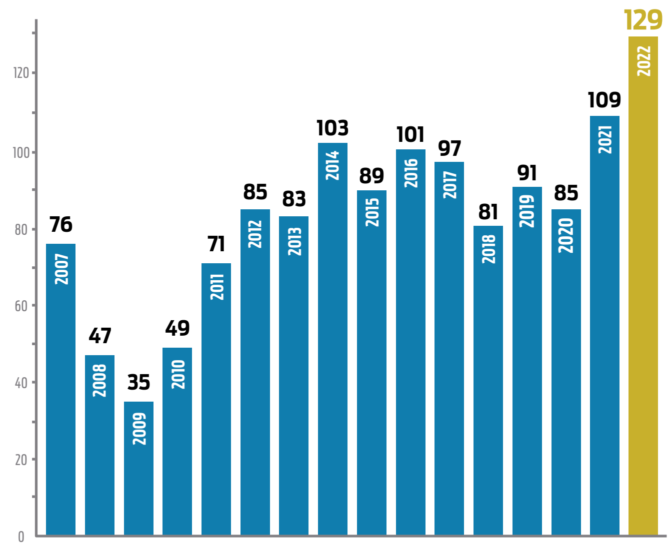
The second half of the year clearly underperformed when compared to the same period in 2021, with 58 commercial sales totaling $213 million in 2022 versus 76 sales totaling $424 million in 2021. In fact Q3-Q4 sales volume was even lower than in 2020 (the first year of the pandemic), which recorded $313 million on 52 sales.

Year-end softening aside, 2022 was an incredibly strong showing as the South Coast market amassed the most prolific haul on record—easily surpassing 2021's previous high bar in both number of sales and sales volume—achieving 129 commercial sales with cumulative dollar volume of $619 million (excluding hotel sales). By comparison, 2021 tallied 109 sales at $556 million in volume. (For perspective, the prior-15-yr. average was 80/yr., now bumped up to 83.7/yr. factoring in a complete 2022.)

Breaking down the 4th Quarter, there were 29 commercial sales accounting for $105 million in volume—equaling the 3rd Quarter's 29 but just under that quarter's $108 million—registering a huge drop from Q4 2021 which saw 43 sales at $335 million in volume.

Despite that massive year-over-year drop in sales volume, it's worth touching on the four South Coast hotels that traded during Q4 2022 (dollar volume from the hotel category is not factored into total sales volume for the market as these properties can often garner outsized price tags that would drastically skew sales volume statistics for the prime commercial categories office, retail & industrial). Most notable was the sale of the 358-key Bacara Resort which traded for $530 million in November (just under $1.5 million per key), pushing total hotel volume for the quarter to $569.1 million, a figure that lands just shy of the entire year's $619 million commercial sales volume. In fact, hotels on the South Coast continue to remain a hot commodity, extending the market's trend of multiple deals per quarter that we've seen throughout 2021 and 2022. As noted in previous reports, pent-up demand—particularly from domestic travelers—after numerous Covid lock-downs has helped make this corner of the commercial market a darling among investors. We do not see real signs of this trend easing any time soon, despite months of uncertainty caused by warnings of recession, as this category can more easily adjust to

### 2022 South Coast Commercial Sales




*15-year average = 80.1 sales/year. Excludes apartment sales.*

volatile economic conditions than others.

Interestingly, retail and office properties accounted for the bulk of the deals during the 4th Quarter—9 retail, 7 office, 6 land, 4 hotels, 2 industrial and 1 special purpose (the former St. Mary's Seminary). The retail and office sectors have been the worst performing assets from a leasing standpoint, but typically a slowdown in leasing can result in owners deciding to sell and transition into more desirable asset classes, which also can create opportunities for owner-users. Furthermore, opportunistic investors have been purchasing underperforming office and retail buildings with the intent of repositioning them to other uses such as multi-family or hospitality.

Further observations that stood out during Q4 include investors outpacing owner-users for the fifth straight quarter [23 investors (80%), 6 owner-users (20%)]), more State Street properties trading (6), one auction sale, and another property changing hands for the second time in three months (2275 Ortega Hill Rd., Summerland). Perhaps the most interesting observation is that 53% of the commercial sales during Q4 took place off-market—the most off-market deals of any quarter to date. We attribute this to a lack of inventory spurring buyers to aggressively seek out specific attractive properties for which they are willing to pay a premium.

Finally, while the market still seems relatively healthy and assets continue to trade, chatter of impending recession continues to swirl. At this moment, inventory has tightened even more, and some owners that may have been a seller last year have either recapitalized their assets at very favorable terms and are no longer incentivised to sell, or they are willing to wait until the current holding period passes. Ironically, the tightening of inventory has kept values strong due to lingering buyers in

CONTINUED ON PAGE 6

## 2022 Quick Stats

**129**

**COMMERCIAL SALES**

**Most ever recorded in a single year**
**20 more than previous record set in 2021**

**$619MM**

**TOTAL SALES VOLUME VS. $556MM 2021**

*(Excludes Hotel Sales Volume)*

**64%**

**INVESTOR SALES (83) VS. OWNER-USER (46)**

**$104MM**

**LARGEST COMMERCIAL SALE**

**123,000 SF QAD Office Campus**

**$530MM**

**LARGEST HOTEL SALE**

**358-Key Bacara Resort**

**The Ritz-Carlton Bacara · 8301 Hollister Ave., Santa Barbara**
**358 Keys · $529,869,000 · Approx. $1,480,000/Key (11.3.22)**

# SOUTH COAST COMMERCIAL SALES


**Santa Barbara Business Park • 315–346 Bollay Dr. & 320–340 Storke Rd., Goleta**
**194,625 SF Office/Industrial Complex • $50,675,000 • $260/SF (3.8.22)**

CONTINUED FROM PAGE 5

1031 exchanges or investment groups that must allocate capital. Investor sentiment continues to be in a “wait & see” position. Rising Interest rates and more stringent financing terms are still the biggest factors affecting deal flow, especially magnifying the gap between seller and buyer expectations on asset pricing.

For the next several months expect this “wait & see” attitude to prevail until there are clearer signals from the Fed that we are either headed to a soft landing or are skipping a recession entirely.

## Q4 Sales Highlights

**2840 De La Vina St., Santa Barbara (Retail)**
29,990 SF • $14,400,000 • $480/SF • 4.5% Cap

**1290 Coast Village Rd., Montecito (Office)**
7,545 SF • $9,500,000 • $1,259/SF • 4.3% Cap
*1031 Exchange*

**1913–1921 State St., Santa Barbara (Medical Office)**
25,972 SF • $9,275,000 • $357/SF
*1031 Exchange*

**40 & 50 Los Patos Way, Montecito (Retail)**
7,800 SF • $7,000,000 • $897/SF

**825 State St., Santa Barbara (Retail)**
14,184 SF • $4,365,000 • $308/SF

## Q3 Sales Highlights

**Riviera Business Park • 2020–2060 Alameda Padre Serra, Santa Barbara (Office Campus)**
92,744 SF • $26,825,000 • $289/SF
*Off-Market*

**801 Linden Ave., Carpinteria (Retail)**
**Single Tenant Rite Aid Property**
7,300 SF • $4,850,000 • $664/SF • 4.51% Cap

**2165 Ortega Hill Rd., Santa Barbara (Self-Storage)**
41 Units • 7,850 SF • $4,350,000 • 2.5% Cap
*Traded $500,000 Above Asking Price*

**Blue Sands Inn • 421 S. Milpas St., Santa Barbara (Hospitality)**
12 Keys • $5,995,000 • $499,583/Key
*Off-Market*

## Q2 Sales Highlights

**QAD Campus · 100–101 Innovation Pl., Summerland (Office Complex)**
122,925 SF · $104,000,000 · $846/SF

**Las Aves · 1801 E. Cabrillo Blvd., Santa Barbara (Office/Retail Complex)**
31,634 SF · $19,250,000 · $609/SF
*1031 Exchange*

**1221–1224 Coast Village Circle, Montecito (Office/Retail Complex)**
17,640 SF · $17,250,000 · $978/SF

**Waterman Hotel · 12 E. Montecito St., Santa Barbara (Hospitality)**
31 keys · $15,550,000 · $501,613/Key
*1031 Exchange*

**The Hangar · 201 W. Montecito St., Santa Barbara (Creative Office/Auto Showroom)**
12,700 SF · $8,900,000 · $701/SF · 5.4% Cap
*1031 Exchange*

## Q1 Sales Highlights

**Santa Barbara Business Park · 315–346 Bollay Dr. & 320–340 Storke Rd., Goleta (Office/Industrial)**
194,625 SF · $50,675,000 · $260/SF · 6.0% Cap
*Off Market*

**Kimpton Goodland Hotel · 5650 Calle Real, Goleta (Hospitality)**
160 Keys · $33,000,000 · $206,250/Key
*Off Market*

**Franciscan Inn & Suites · 109 Bath St., Santa Barbara (Hospitality)**
53 keys · $22,000,000 · $415,094/Key

**118 E. Carrillo St., Santa Barbara (Office)**
10,627 SF · $7,500,000 · $706/SF · 4.4% Cap
*Off-market*

**309 W. Quinto St., Santa Barbara (Medical Office)**
3,528 SF · $3,800,000 · $1,077/SF · 3.6% Cap
*Off-market*

**Riviera Business Park**
**2020–2060 Alameda Padre Serra, Santa Barbara**
**92,744 SF Office Complex · $26,825,000 (7.22.22)**


**The Franciscan Inn & Suites**
**109 Bath St., Santa Barbara**
**53-Key West Beach Hotel · $22,000,000 (3.10.22)**

**Las Aves · 1801 E. Cabrillo Blvd., Santa Barbara**
**31,634 SF Office/Retail Complex**
**$19,250,000 (5.3.22)**

**118 E. Carrillo St., Santa Barbara**
**10,627 SF Office Building**
**$7,500,000 (2.16.22)**

# BETTER THAN "GOOD YEAR" FOR VINEYARDS

It was a notably active year for Santa Barbara County agricultural land trading. In the category of Ag-zoned property 25 acres or larger in size, in all of 2022 there were 49 total transactions amounting to over 7,700 acres and $380 million in value (excluding partial interest sales, family transfers or related entity assignments, and properties with MT zoning).

The vineyard market was particularly robust, starting the year with a crusher of a sale. In January Kylix Vineyards purchased the 1,227-acre Rancho Sanja Cota property in the Santa Ynez Valley for over $62 million or approx. $50,500/acre. The property previously sold in 2017 for just over $34 million. Meanwhile Sran Vineyards purchased a 1,330-acre property outside Los Alamos previously owned by Treasury, for just under $32 million. The former Grevino Winery project, a 104-acre property to the southeast of Santa Maria, sold for $12.5 million to Full Circle Vineyards. Other notable transactions included the Mosby Winery & Vineyards, Le Bon Climat, Premiere and Vogelzang properties.

Notable sales of veggie ground include 147 acres at the intersection of Stowell and Blosser in Santa Maria which sold to an investment group for an impressive $70 million or approx. $476,000/acre. Another sale of prime row-crop ground just West of Orcutt, formerly the Allen Hwy 1 Ranch, sold for just under $14 million. At 220 acres that value lands in a more reasonable range for row crop ground at approx. $63,000/acre.

Things haven't slowed moving into 2023 wuith activity and interest in commercial agriculture remaining strong. Land in our area is viewed as a safe investment, especially in inflationary times. Additionally, the word is out that there are changes afoot at the County level which will result in the increased economic viability of Ag-zoned parcels in the unincorporated areas. The Agricultural Enterprise Ordinance and the Recreational Master Plan are both working their ways through the planning process (the Farmstay Ordinance Amendments have been incorporated into the Agricultural Enterprise Ordinance planning process). This is a moment of unique opportunity for existing owners and buyers of commercial ag land to submit projects while this process is occurring. The County is actively seeking land owner involvement, visit the websites below for more information:

**https://www.countyofsb.org/728/Agricultural-Enterprise-Ordinance**

**https://www.sbcrecplan.com**

**Rancho Sanja Cota · Santa Ynez Valley**
**1,227 Acres · $62,000,000 · $50,500/Acre (6.22.22)**

**Justin Diem**
**Brad Frohling**
**Gene Deering**

# Leasing
SOUTH COAST

# Office

Moving into 2023, Santa Barbara's office market has remained relatively tight, not surprising given the state of uncertainty surrounding the office sector around the country. By the end of the 4th Quarter the vacancy rate rose to 9.7%, up a percentage point from the 3rd Quarter's 8.8%. As has been the case ever since the department store chain left Paseo Nuevo, the largest space on the market remains the former downtown Macy's at the corner of State and Ortega Streets, with all 132,000 square feet of it now being marketed as office. That's significant given the first floor was previously leased to Aloha Fun Center roller rink for retail use and should have been open by now, but that deal went south in the latter half of 2022. That unfortunately put 45,000 SF of space in the available column for Santa Barbara's office sector given that, as mentioned above, it's now being marketed as office for lease.

But big spaces like that don't help much if you are an office tenant in need of Class A space in Santa Barbara less than 2,000 SF with parking… there are relatively few options. In fact the 4th Quarter saw limited leasing of larger space as the largest new lease was just 3,100 SF at 801 Garden St., with total absorption for the market at about 31,000 SF for the quarter. The largest transaction during the 4th Quarter was actually not a new lease as Charles Schwab renewed their 9,300 SF space at 902 Chapala St. for 10 years. Meanwhile average gross asking rates remained flat at about $3.31/

**701 State St. Santa Barbara · The Ortega Building**
**Entire 132,500 SF now available as Office space**

## 2022 So. Coast Leasing Quick Stats

### VACANCY

| | | Q3 | Q4 |
|---|---|---|---|
| OFFICE | Santa Barbara | 8.8% | 9.7% |
| | Goleta | 8.4% | 9.8% |
| | Carpinteria | 18.0% | 26.0% |
| INDUSTRIAL | Santa Barbara | 0.7% | 0.1% |
| | Goleta | 2.8% | 3.0% |
| | Carpinteria | 3.5% | 1.2% |
| RETAIL | Santa Barbara | 2.7% | 2.7% |

### GROSS ABSORPTION (SF)

| | | Q3 | Q4 |
|---|---|---|---|
| OFFICE | Santa Barbara | 39,900 | 30,600 |
| | Goleta | 16,300 | 6,300 |
| | Carpinteria | 6,000 | 2,600 |
| INDUSTRIAL | Santa Barbara | 27,500 | 31,900 |
| | Goleta | 36,800 | 6,100 |
| | Carpinteria | 10,000 | 63,600 |
| RETAIL | Santa Barbara | 18,000 | 25,000 |

### AVG. GROSS ASKING RATES ($/SF)

| | | Q3 | Q4 |
|---|---|---|---|
| OFFICE | Santa Barbara | $3.30 | $3.31 |
| | Goleta | $2.08 | $2.17 |
| | Carpinteria | $2.51 | $2.44 |
| INDUSTRIAL | Santa Barbara | $2.73 | $3.09 |
| | Goleta | $1.89 | $1.94 |
| | Carpinteria | $1.93 | $2.45 |
| RETAIL | Santa Barbara | $4.42 | $4.38 |

### AVG. GROSS ACHIEVED RATES ($/SF)

| | | Q3 | Q4 |
|---|---|---|---|
| OFFICE | Santa Barbara | $2.97 | $3.12 |
| | Goleta | $1.94 | $2.03 |
| | Carpinteria | $1.96 | No Leases |
| INDUSTRIAL | Santa Barbara | $2.10 | $2.42 |
| | Goleta | $1.82 | $1.66 |
| | Carpinteria | $1.58 | $1.60 |
| RETAIL | Santa Barbara | $3.15 | $4.20 |


SF to end the year, while the average gross achieved rate rose from $2.97/SF in Q3 to $3.12/SF in Q4.

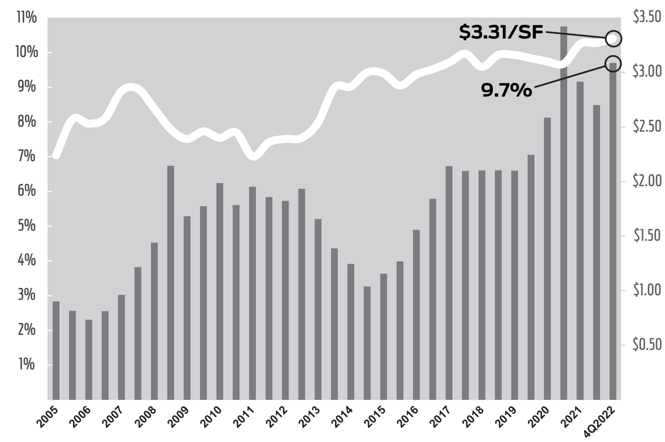
Moving on to Goleta, the news isn't much different on the office vacancy front as the vacancy rate rose to 9.8% by the end of Q4 2022, up from 8.4% in Q3, basically matching Santa Barbara. An example of how quickly the office market is changing can be seen in the building at 6750 Navigator Way. Prior to COVID, the building was fully leased yet now all 46,000 SF of it is available. Given the limited number of office tenants actively looking in the market we would not predict the vacancy rate will tick downward any time soon. Leasing activity was lackluster during Q4 with only four new office leases—the largest being just 2,600 SF—for a total of 6,300 SF. The largest office lease of the quarter was again a renewal, as Moog re-upped their 23,500 SF at 7406 Hollister Ave. The average gross asking rate climbed slightly from $2.08/SF in Q3 to $2.17/SF in Q4. Meanwhile the average gross achieved rate was $2.03/SF, up a bit from $1.94/SF in Q3.

Down to Carpinteria, the office market has gone through a remarkable change over the past 12 months. Back in Q4 2021 the vacancy rate sat at just 3.9%. By the end of Q4 2022 it ratcheted all the way up to 26%. Now those familiar with the market understand that given the limited amount of office product in Carpinteria, the vacancy rate can swing one way or the other quickly. But 26%! ProCore's desire to scale back has indeed had a significant impact on vacancy in the market. As of December 31, ProCore had 78,000 SF on the market for sublease! It also doesn't help that during Q4 there was just one office lease in Carpinteria, for 2,600 SF, and total available space climbed to 121,000 SF. For those office tenants in the Carpinteria marketplace it might be a good idea to discuss with your agent a "blend and extend" where you lower your current lease rate in exchange for adding additional lease term.

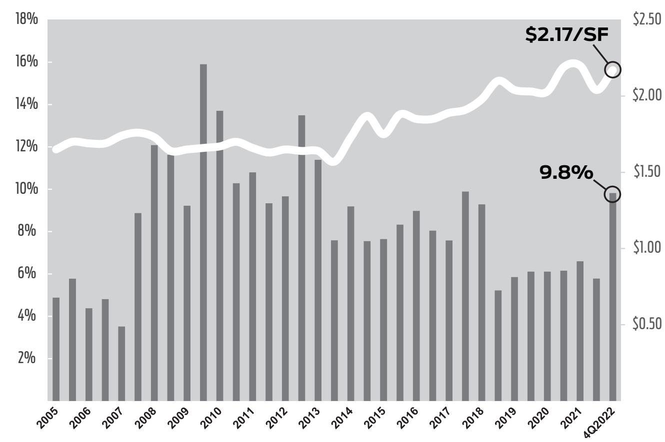
## So. Coast Leasing Trends

*Average Gross Asking Prices & Vacancy Rates*

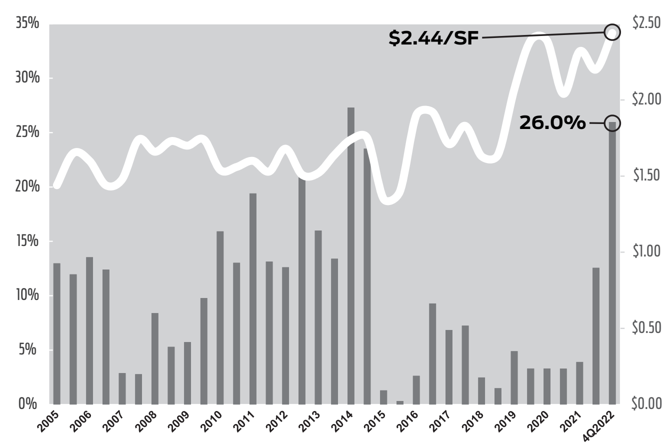
### SANTA BARBARA OFFICE




### GOLETA OFFICE



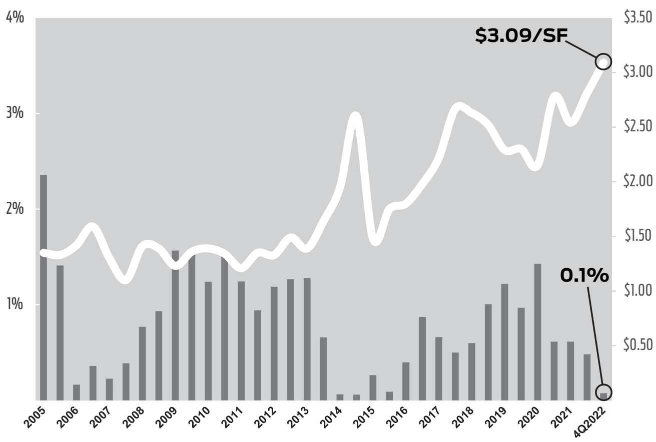

### CARPINTERIA OFFICE



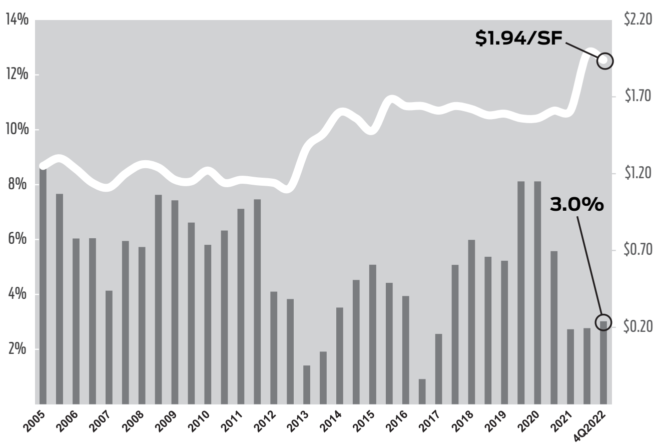
## So. Coast Leasing Trends

*Average Gross Asking Prices & Vacancy Rates*

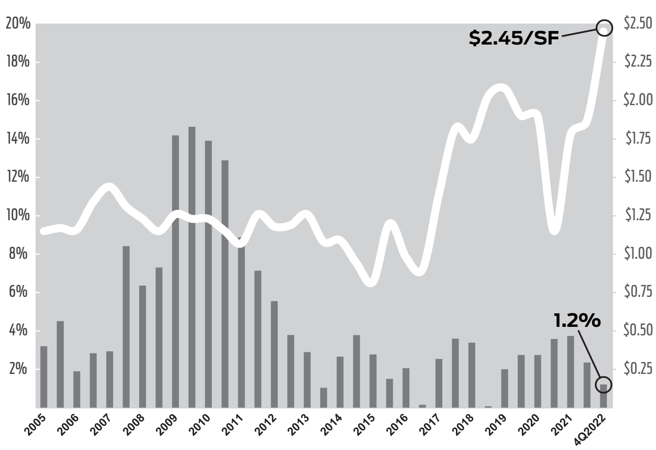
### SANTA BARBARA INDUSTRIAL




### GOLETA INDUSTRIAL




### CARPINTERIA INDUSTRIAL




# Industrial

The fourth quarter of 2022 was relatively active for industrial leasing with lease rates remaining mainly flat throughout the South Coast. Goleta did see a slight increase in its vacancy rate, moving from 2.8% in Q3 to just 3% in Q4 with six spaces over 10,000 SF currently available. Still there were only two new leases signed in Goleta during the quarter, totaling about 6,100 SF.

Carpinteria, meanwhile, currently has just one industrial vacancy at 6384 Via Real (15,600 SF), dropping its vacancy rate to just 1.2% in Q4 from 3.5% in Q3. This limited-inventory market had three notable leases involving growing companies and one new company to the market. Rincon Power leased 8,600 SF at 6381 Rose Ln.; Soil Organics leased a healthy 34,400 SF of former ProCore space at 6395 Cindy Ln.; and an undisclosed tech company leased 20,000 SF at 5251 6th St. While office space is plentiful in Carpinteria, industrial product is and will remain scarce for the foreseeable future.

Speaking of scarcity, let's talk about a 0.1% vacancy rate in Santa Barbara industrial. In fact the vacancy rate has rested below 1% since Q2 2021. That low vacancy rate was due to eight new leases totaling 32,000 SF during the quarter. Highlights include SRS Corporation (roofing supplier) leasing the newer 9,600 SF at 35 N. Calle Cesar Chavez while Haywards leased 7,100 SF at 726 Cacique St. A new-in-town company, Lymen Organics, leased 6,000 SF at 402 E. Gutierrez St. across from the Home Improvement Center.

In some cases the demand for quality industrial is driving up lease rates closer to some office and retail spaces. Demand for smaller industrial spaces (sub 10,000 SF) remains high throughout the South Coast. We will continue to see low vacancy with no dramatic changes anticipated in the coming quarters. We remain hopeful absorption of some of the larger spaces in Goleta will continue.

**6395 Cindy Ln. Carpinteria · Industrial**
**34,400 SF · Soli Organics (10.4.22)**

**35 N. Calle Cesar Chavez Santa Barbara · Industrial**
**9,662 SF · Roofline, Inc. (10.21.22)**

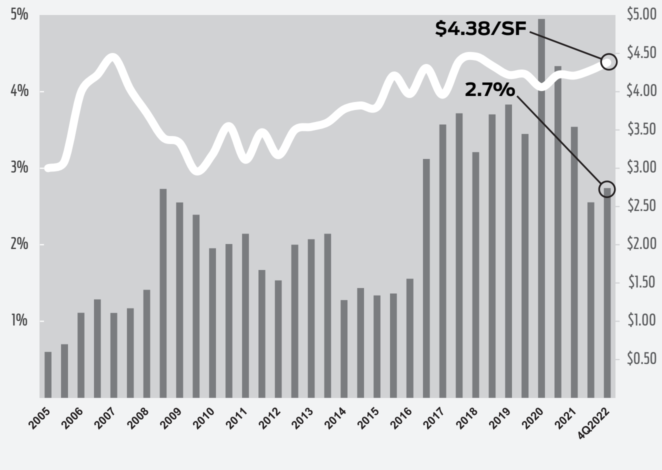
# Retail

Although a walk along Downtown State Street or through La Cumbre Mall won't instill confidence in the Santa Barbara's retail sector, the City as a whole is showing some positive signs of a sustained post-pandemic market.

During the 4th Quarter there were 10 new retail leases signed totaling approximately 25,000 SF, a modest jump in absorption from 18,000 SF in Q3. These lease transactions ranged in size from a 530 SF space to a 5,046 SF space, the latter being a joint effort between the local teams of Lama Dog and Sama Sama who took the former La Rumba nightclub space at 3435 & 3441 State St. The building recently underwent a façade remodel, which will add a fresh appearance for the new businesses. Another Funk Zone favorite Brass Bear opened their Uptown location in the former Café Stella space off Las Posits Rd. Meanwhile Montecito retail continues to flourish with a confidential tenant set to take over the former Cava Space at 1212 Coast Village Rd., and the former Trattoria Mollie's space at 1250 Coast Village Rd. being leased to Montecito Fitness.

At year-end Santa Barbara's retail vacancy rate remained flat at 2.7% to match Q3. Asking rates for Santa Barbara retail are averaging $4.38/SF Gross Equivalent (Base Rent + NNN), slightly below $4.42/SF in Q3. Meanwhile achieved rates increased dramatically from Q3's $3.15/SF Gross Equivalent to $4.20/SF Gross Equivalent (Base Rent + NNN) in Q4. With limited number of lease transactions occurring, the achieved rate was pushed by the higher lease rates

**SANTA BARBARA RETAIL**




of the Coast Village Road leases.

It's worth mentioning that on the sales front, there were nine retail buildings sold during Q4, which is surprising when only nine new leases were executed. Four of these sales were on State Street, which highlights the shakeup of Santa Barbara's main downtown commercial artery.

**3435 & 3441 State St. Santa Barbara · Retail**
**5,046 SF · Lama Dog (12.7.22)**

# DOWNTOWN STATE STREET RETAIL VACANCY UPDATE

The year ended with an overall increase of available retail storefronts on downtown State Street, rising from 32 in Q2 to 36 in Q4. While not favorable news, an increase to 13 pop-up shops mitigated the negative appearance of a vacant storefront.

A new landscape is starting to emerge downtown as more retail buildings are removed from market for adaptive reuse projects. The former Sur La Table building at 821 State hosted the city's CREATE STATE workshop in early December as part of the State Street Master Plan outreach. Highlights included the initial plans for the conversion of the building to workforce housing, a key example for the city moving forward since it is one of many buildings on State suffering from functional obsolescence. A block over, Fashion Eyes at 730 State has closed as the building also sold for a reuse project. While these reuse projects will remain in the total count of storefronts until construction is complete, they are not counted as vacant since they are not available for lease.

A sizeable vacancy returned to our list as Aloha Fun Center failed to open at 701 State during its short lease. Although now marketed as office space, the prominent former Macy's buildings will remain as a retail storefront until a new use is confirmed for the first floor. Across the street at 710 State, it appears another large vacancy will be coming online soon as Restoration Hardware moves to take over the Lucca space at The Old Firehouse in Montecito's Upper Village.

With available storefronts increasing in Q4, the city will be pushed for decisions as it faces a plethora of challenges on State St. The community will need to welcome new businesses such as the drift hotel at 532 State which started taking reservations in February. Longoria Wines at the old Wine Therapy space at 732 State appears to be making visible progress with construction paper off the windows and finishes installed. Although the city plans to keep the street closed through 2023, the increase in vacancy highlights that the current state of State is not sustainable.

### State Street Retail Vacancy

| | Q3.22 | Q4.22* |
|---|---|---|
| Total Storefronts | 249 | 249 |
| Storefronts Available For Lease | 35 | **36** |
| Vacancy Rate of Storefronts Available For Lease | 14.06% | 14.46% |
| Vacant Storefronts | 21 | 19 |
| Perceived Vacancy Rate | 8.43% | 7.63% |
| Storefronts Still Occupied by Tenant | 4 | 4 |
| Pop-Up Shops | 10 | **13** |

*Radius conducts monthly research including visual inspection of the downtown State St corridor (400–1300 blocks). Vacancy rate calculated using State St facing storefronts. Some spaces may be leased and we are not aware. Pop-ups are included as vacant since they are short term (12 months or less). First floor State Street-fronting office/banks excluded in this count. *Report updated December 2022*

### Notable Q4 Activity

- **623.5 State —** Sold (Nectar Clothing)
- **821 State —** Adaptive Reuse in Progress (Workforce Housing)
- **730 State —** Now Vacant (Fashion Eyes); Sold in Q2 for Hotel Reuse Project
- **825 State —** Approx. 14,200 SF Building Sold in Q4
- **1315 State —** Approx. 6,000 SF Building Sold in Q4
- **1236 State —** Approx. 4,000 SF Building Sold in Q4


### Vacant Storefronts By The Block

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

RADIUS® Commercial Real Estate

**Steve Golis**
**Mike Lopus**
**Aneta Jensen**

# Multi-Family

## INVESTMENTS

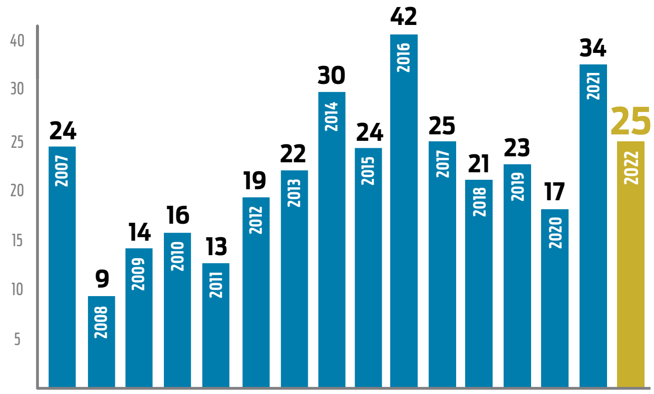
# South Santa Barbara County

Throughout the 4th Quarter of 2022, we continued to see strong demand and interest for multi-family properties in South Santa Barbara County and very little inventory coming to the market. A total of eight investment properties 5+ units in size sold in South Santa Barbara County, the largest being Shepard Place Apartments at 1069 Casitas Pass Rd. in Carpinteria, a 55+ senior community complex. This 169-unit asset sold off-market at the end of December for just under $42 million and is one of the largest multi-family properties in Carpinteria, consisting of 11 separate buildings. Built in 1979 on 7.36 acres of land zoned as PRD-20, the complex features one and two-bedroom garden style units which bring in an average monthly rent of $2,620. The low price per unit of $247,840 coupled with its prime location creates a huge upside potential for the new owner.

We do still see the occasional off-market transaction such as this one, but properties that come to market are seeing a large amount of activity which ultimately benefits the sellers. A 17-unit property at 509 Fig & 514 Chapala St came on the market in December. Of the 17 units, only three were occupied. This property's condition created an ideal situation for a buyer to come in and have the ability to update 14 units to their standards and set the units to market rent after the updates. The property was listed at $4,500,000 and received over 15 offers and is expected to close in the $5,000,000+ range. This is a reflection of the competitive pool of buyers who are still looking for investment opportunities that have a strong upside potential. The looming concerns over new Rent Control guidelines in the City of Santa Barbara have not yet deterred investors in the market.

## 2022 South County Multi-Family Sales

*Properties 5+ Units*




The City of Santa Barbara's apartment rental vacancy is still very low, below 2% in Q4 of 2022. This is the lowest sustained vacancy rate that Santa Barbara has seen in recent years. Many factors have influenced this vacancy rate in 2022. One major impact was an influx of new residents, who, during this pandemic, were able to work from home and pay top end rent rather than living in high rent cities such as those in the Bay Area or LA / Southern California. This new demand that was driven by the out-of-town renters, coupled with the limited supply, created a situation where rental rates skyrocketed to new market highs.

Summerland had one transaction in Q4 at 2320 Banner Avenue. This 10-unit property traded off-market for $3,900,000 at $390,000 per unit.

Meanwhile in Isla Vista, 850 Camino Pescadero, an 11-unit student housing property located near UCSB, received over five offers to the benefit of the seller, ultimately closing in early November for $3,925,000 ($356,818/unit). The property had been very well


**Shepard Place Apartments · 1069 Casitas Pass Rd. Carpinteria**
**169-Unit 55+ Community · $41,885,000 · $247,840/Unit (12.6.22)**


16 W. Mission St. Santa Barbara
23 Units · $11,825,000 · $514,130/Unit (12.19.22)

maintained with a rental upside that posed a great opportunity for the buyer.

We also saw a portfolio come to market, 6712 Del Playa (2 units), 6509 Sabado Tarde (18 units) 6528 Sabado Tarde (4 Units) & 6529 Trigo (7 total units: 3 Commercial & 4 Residential) totaling 31 units. The portfolio was listed for $15,250,000 at a current CAP rate of 2.36% and a pro-forma CAP rate of 4.14%. This portfolio is expected to go under contract and close in Q1 of 2023.

Three other student housing assets in Isla Vista were listed in November and are now in the best-and-final stage of the sale process as of 1/26/23. The listing includes Tropicana Gardens, Villas & Del Norte totaling 208 units and 1,112 beds. We anticipate this property to be under contract and close during the first half of 2023.

## Overall in 2022...

In South Santa Barbara County in 2022, we saw roughly 25 transactions of 5+ units, nine fewer than 2021 (34) but still a very strong year by all accounts. We still expect to have strong buyer interest throughout 2023, though investors will be more cautious in the current environment and put a greater emphasis on the buyer's investigation of the financials and physical condition of each specific property during this current market landscape moving forward in the near term.

## Looking forward to the rest of 2023...

With the anticipated tightening of monetary policy and the gradual rising of interest rates, we foresee these factors having a noticeable impact on multi-family sales in the SLO, Santa Barbara and Ventura County.

Multi-family properties historically and currently are a great shelter against inflation relative to other investment options.

The Federal Reserve raised rates seven times in 2022, with the goal of slowing the economy and reducing inflation. Though inflation has eased recently, there still looks to be additional hikes to come in 2023. The Fed raised the target range for the fed funds rate by 25bps to 4.5%–4.75% in its February 2023 meeting, dialing back the size of the increase for a second straight meeting but still pushing borrowing costs to the highest since 2007. As a result of the continually increasing rates we are going to see a significant slowdown in the trading volume at a national level, which will ultimately trickle down to the local level.

We expect to see strong buyer demand for multi-family in 2023, but as has become the norm, there will be limited listings available. Market conditions such as this prove to be especially challenging for buyers coming out of a 1031 Exchange and looking for a replacement property. Many of these buyers end up having to pay the taxes or finding their replacement properties in different markets.

We expect about 25–35% fewer multi-family properties to trade in 2023 vs. 2022 along the Central Coast. With these factors at play, we will see a very limited vacancy which will only work to the advantage of current owners' property value if they were to entertain offers.

## North Santa Barbara County

In Q4 of 2022, North Santa Barbara County saw two multi-family transactions. Both were in Santa Maria, located at 115–213 Mary Dr. (27 units) and 618 E. Mill St. (10 units), and were sold by the same seller. Both received multiple offers, with 115–213 Mary Dr. closing for $5,170,500 at $191,500/unit and a CAP rate of 3.75%; while 618 E. Mill St. sold for $1,585,000 at $158,500/unit and a CAP rate of 3.71%.

The vacancy rate in the Lompoc/Santa Ynez submarket has expanded moderately over the past year, but at 3.2% it remains slightly below the long-term average. Within the past 12 months, we saw the Lompoc and Santa Ynez region rents grow by a noteworthy 7.8%, which was right in line with the annualized rate over the past three years.

Meanwhile the vacancy rate in the Santa Maria submarket has expanded moderately over the past year, but at 3.7%, this aligns with the long-term average. While developers have been active in recent years, nothing has delivered over the past 12 months in the Santa Maria region of North County.

## San Luis Obispo County

In the next county over, we saw one transaction of 5+ units in size in Q4 of 2022. Located at 3003 Rockview Place in San Luis Obispo, this 8-unit building sold for $2,900,000 at a CAP rate of 2.93%.

The vacancy rate in the South SLO submarket has remained stable over the past year, but at 2.1%, it is slightly below the long-term average. New development is common in this submarket: About 140 units have delivered over the past year, consistent with the five-year average. Development is set to continue, as roughly 48 units are underway, which will expand the existing inventory by 1.2%. Rents have increased by 2.8% over the past year. There remains very strong demand for student housing in this market space.

## W. Ventura County

Down in West Ventura County, there were two larger transactions in Q4 of 2022, compared to 2021 which saw 14 transactions. 156 S. Laurel St. sold in early December off-market. This 30-unit property closed for $6,700,000 ($233,333/unit). The other transaction was at 123 S. D St. in Oxnard, a 9-unit property that sold for $2,925,000 or $325,000/unit with a 5.46% current CAP rate. The asset was originally priced at $3,100,00.

Comparing Q4 of 2021 to Q4 of 2022, we see a great example of the byproduct of the Fed rate hikes and their effects on transactions in the region. We are seeing buyers that still want to get into the market and purchase in the area but not able to come up to pricing that sellers have become accustomed to and saw during the low interest rate periods of 2021. Most owners as well as buyers are going through a “price discovery” process and the new normal where the high interest rates are going to affect their purchasing power.

The vacancy rate in the Ventura submarket has expanded over the past four quarters, and at 7.0%, it is somewhat above the long-term average. Rents have remained essentially unchanged over the past year but have posted an average annual increase of 4.6% over the past decade.

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