![RADIUS Insight]

RADIUS Commercial Real Estate

SOUTH COAST MARKET REPORT

Q4 2023

Q4 Commercial Sales Summary

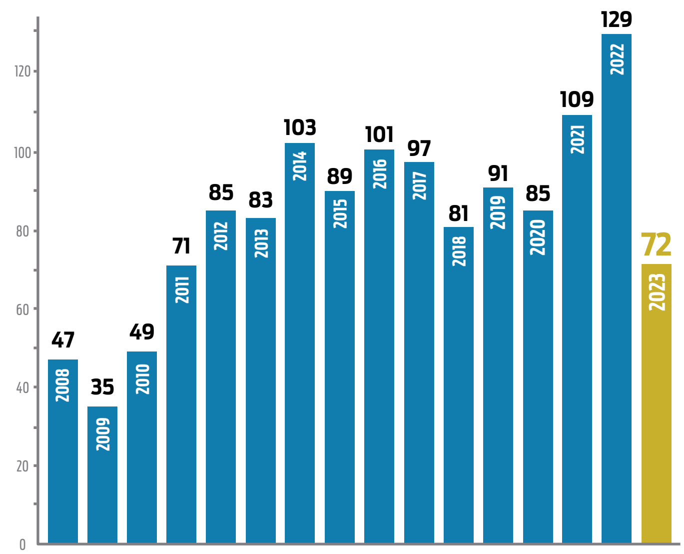
FEAST TO FAMINE

From all-time high 129 transactions in 2022, South Coast commercial sales plunge to 72 in 2023, the market's lowest annual total since 2011

The year ending 2023 came to a rather sobering close as sales of commercial property on Santa Barbara's South Coast remained lower than average compared to previous year-end data, continuing the downward slide we've been riding since a record-breaking 2022. In recent years, the 4th quarter has typically been the most active period of the year, with sales momentum tending to ramp up as the new year approaches. The 4th quarter of 2023, however, resulted in stats very different from what we've been accustomed to on the South Coast, as we experienced the softest Q4 in the last five years. Not surprisingly, this led to the lowest total annual sales count since 2011 which tallied 71 sales from January through December.

At just 72 total commercial sales for all of 2023, sales volume also dropped substantially to nearly $239MM, down significantly from 129 sales and $615MM volume in 2022. We essentially plummeted from the largest annual haul on record for the South Coast, to our lowest producing year in the last decade for number of transactions. We didn't even meet the 15-yr. average of 84 sales. We attribute this dramatic drop in activity to the market catching up to interest rate hikes which began in late 2022 and persisted into 2023, having a lag-effect that is now reflective in our market data.

2023 South Coast Commercial Sales



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

355 Coromar Dr., Goleta · Cabrillo Business Park
7.61 Acres Development Site Purchased by Google for $16.8MM (10/26/2023)
Pictured below: 2018 rendering of similar entitled office building project in same business park

Overall the 4th quarter pulled in 14 commercial sales representing $68.5MM in volume (excluding sales volume from hotel deals), matching the 14 sales from Q3 but a decent increase in volume from that quarter's meager $33.5MM. For comparison, the 4th Quarter averages from

Commercial Sales Summary Continued on P.2

Q4 Commercial Sales Summary

Quick Stats

14
#Q4 SALES (2023) vs. 31 (5-YR. Q4 AVERAGE)

-57
ANNUAL SALES DROP 72 TOTAL (2023) vs. 129 (2022)

-$376MM
ANNUAL VOLUME DROP $239MM (2023) vs. $615MM (2022)
Excluding Hotel Sales

$16.8MM
LARGEST Q4 SALE 7.61 ACRES IN GOLETA (Google)

Continued from P.1

the previous five years were 31 sales / $199MM, more than double Q4 2023 in both counts.

The quarter's breakdown by asset class involved four (4) office, four (4) land, three (3) industrial, two (2) retail and one (1) hospitality sale. Furthermore, the dominant buyer continued to be investors (nine investors, five owner/users), a recurring theme for the year. One interesting Q4 stat was the unusual number of land sales at four total, with three of those sites including plans for development including multi-family and office projects. Google's sizable purchase of 7.61 acres at 355 Coromar Dr. in Goleta was the most noteworthy land sale. Although exact plans are unknown, the tech giant's investment in the community can be viewed as validation of Goleta's attractive office market.

Pricing continues to be a challenge for sellers and buyers in our market, certainly a significant factor contributing to the lower number of transactions. An interesting statistic we analyzed last quarter was the amount of time a property spent on the market and the related effective sale prices versus asking prices. Four transactions during Q4 spent in excess of six months on market with each ultimately closing at significant price discounts. As the market continues to adjust, we expect to see the gap between buyer and seller expectations continue to shrink.

As we move further into 2024, the Fed's recent signaling of possible interest rate cuts later this year has sparked some energy in the market. This is the news many real estate investors and key players have been awaiting. As such, we forecast a potential uptick in inventory as sellers who were on the fence last year regain confidence in the market. That said, although news of possible rate cuts may offer a sense that the eye of the storm has passed, there remain plenty of signs the economy isn't completely out of the woods. Further inflation data will be needed to validate the Fed's decision to begin lowering rates, and presidential election years always create uncertainty which curbs market activity.

101 W. Canon Perdido & 102 W. De La Guerra, Santa Barbara
28,514 SF Office Building + Adjacent Parking Lot
$13,995,000 (11/30/2023)

801 State St., Santa Barbara
6,930 SF Retail Building in Paseo Nuevo
$3,700,000 (11/20/2023)

801 S. Kellogg Ave., Goleta
13,044 SF Industrial Building
$3,665,000 (10/26/2023)

Q4 Multifamily Sales Summary

Santa Barbara South County

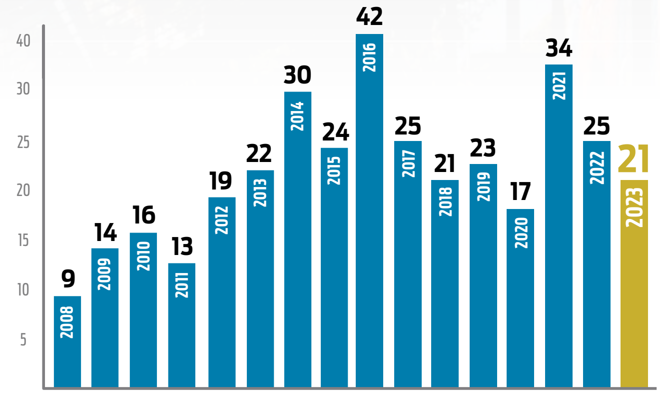
Throughout the 4th quarter of 2023, we continued to see strong demand for multi-family properties in Santa Barbara South County, despite very little inventory coming to market in 2023. Market conditions greatly influenced the number of transactions in South County and along the Central Coast in general. In Q4 we did see a rebound from Q3, with nine (9) investment properties 5-units or greater trading in Santa Barbara South County, the largest at 420 E. De la Guerra St. in Santa Barbara. The asset sold for $23,000,000 to an affordable housing group, and was actually a part of a 3-property portfolio sale. The other two properties were in Midway City and Long Beach, CA. The buyer of this portfolio was the Foundation for Affordable Housing, based in Irvine.

Of those nine sales jut one was an off-market transaction, a 35-unit property at 6548 Cordoba Rd. in Isla Vista that traded between two long-time owners in the area for $11,250,000 (more on this deal in the Isla Vista section of this report below). Properties that come to market are seeing a great amount of activity, ultimately benefiting sellers to achieve the highest and best pricing. Another notable portfolio sale in Q4 involved three properties located at 3963 Via Lucero, 427 W. Islay St., and 427 W. Montecito St. in Santa Barbara. These properties ended up being sold individually and commanded strong attention, reflecting the highly competitive buyer pool currently in the marketplace, which remains unchanged as investors stay in the hunt for opportunities with strong upside potential. All three buildings were well under market in rents and had deferred maintenance, which any investor would have to consider when evaluating an asset. They all were priced at very low cap rates on the current income, but there is great potential in these buildings if the buyer can achieve market rents at this location.

The looming concerns over new rent control guidelines in the City of Santa Barbara continue to make it difficult for buyers to view the property through only a potential rental upside lens. Now more than ever we are seeing buyers putting a greater emphasis on the property's current rental income that they would be receiving at the time of purchase and much less on proforma income. Buyers will consider the AB annual increases, the potential market rents, the timeline to achieve those increased rents, and the work that will need to be completed on the property to position the building to achieve those rents. But this can be a slow process for new owners before they can position a property to achieve its highest and best potential. These three properties sold for well under their asking price for these reasons. 3963 Via Lucero was a 16-unit building listed at $6,250,000 ($390,625/ unit) with a current CAP of 3.68% and a potential market CAP of 4.65%. Via Lucero sold for $5,475,000 ($342,1876/ unit), a price reduction of $775,000; the property was sold on 12/14/2023. 427 W. Islay St., Santa Barbara, was a 22-unit property listed for $6,750,000 ($306,818/ unit) at a current CAP of 3.45% with a market CAP of $5.17%. This property sold for $3,932,141 ($178,733/ unit), a price discount of $2,817,859. 427 W. Montecito St. was listed at

Multifamily Sales Summary Continued on P.4

2023 South County Multi-Family Sales



Properties 5+ Units in Size

420 E. De La Guerra St., Santa Barbara (Presidio Park Apartments) 50 Units · $23,000,000 (Affordable housing; part of 3-property portfolio) 10/26/2023

Q4 Multifamily Sales Summary

Continued from P.3

$5,995,000 ($315,526/ unit) at a current CAP of 1.78% and a market CAP of 5.73%. This property sold for $4,800,000 ($252,631/ unit) and over a million dollars below asking ($1,195,000). These properties were sold in "As-Is" condition with no seller repairs or credits. When you see these kinds of price reductions, there are typically a few key reasons: well under-market rents and deferred maintenance on the property are typically the driving forces for these pricing discounts.

The City of Santa Barbara's apartment rental vacancy rate remains very low, holding around 2% in Q4 of 2023. This is the lowest sustained vacancy rate that Santa Barbara has seen in recent years. Rental rates have plateaued for now and are down from the highs of 2021 and 2022. Many factors have affected this vacancy rate in 2022. There is still a strong need for additional housing in South Santa Barbara County.

Isla Vista

In Isla Vista we saw just two properties trade in Q4 of 2023. As previously mentioned, the 35-units asset at 6548 Cordoba Rd. traded off-market for $11,250,000 ($321,428/door). This is a very low price per unit and resulted in a great deal for the buyer in this transaction. The other property was located at 6509 Sabado Tarde, an 18-unit building listed for $6,800,000 and sold for $6,325,000 ($351,388/unit). This well-located property on the edge of the UCSB campus had some deferred maintenance, and rents were well below market with great rental upside; the advantage of student housing is that investors can push rents closer to the market in a shorter window as a significant portion of the tenant base graduates and moves out of the units each year. For these reasons, a buyer can be slightly more aggressive with pricing and the understanding that it is a much shorter runway to achieve forecasted rents and capture that potential upside at the property.

6548 Cordoba Rd., Isla Vista (Student Housing)
35 Units · $11,250,000 ($321,428/unit)
10/24/2023

Santa Barbara North County

In Q4 of 2023, Santa Barbara North County saw just one multi-family transaction involving properties greater than 5 units. Locted at 703 E Meehan St., Santa Maria, the property featured newer construction (2020) with 318 units and sold for $113,500,000 ($356,918/ unit). At this pricing, the current CAP rate was 5.7%. This deal represented the largest sale of the year in both North and South Santa Barbara Counties.

The vacancy rate in this submarket is essentially the same as the previous year at 3.2%, slightly below the long-term average. Rents have increased slightly in the region by about 3% higher than where they were last year at this time. Over the past three years, rents have increased by a cumulative 20.6%.

W. Ventura County

In West Ventura County, there were three transactions in Q4 of 2023. At 230 W. Harvard Blvd.d in Santa Paula, a 24-unit property sold on 11/28 for $6,195,000 ($258,125/ unit), at a 5.06% CAP rate. The buyer was looking to expand their footprint in the area. At 3574 Preble Ave. in Ventura, a 38-unit asset sold for $9,800,000 ($257,894/unit) at a 4.5% CAP rate and was originally listed for $10,100,000. This property was in good condition, with some units having been updated. There is decent rental upside at this location, and the property was going to deliver a few units vacant at the time of sale, allowing the buyer to achieve market rents at the start of his ownership tenure.

Multifamily Sales Summary Continued on P.5

Continued from P.4

San Luis Obispo County

Meanwhile in SLO County we saw three transactions in Q4 greater than 5 units. All three occurred in Paso Robles: 2206 Spring St. was a 12-unit property that listed and sold for $1,250,000 ($104,166/ unit); 2205 Park St. was a 5-unit property that sold for $1,550,000 ($310,000/ unit); and 3424 Oak St. was a 6-unit property that listed and sold for $1,425,000 ($237,500/ unit) at a 5.5% current CAP rate.

The vacancy rate in the South SLO submarket is currently around 3.6%, slightly above the long-term average of 3.4–3.5%. South SLO county has seen year-over-year rental growth of roughly 2.6%, which has been one of the better growth rates among the central coast markets.

Summary

The 4th quarter of 2023 is a great example of the byproduct of the Fed rate hikes and their effects on transactions in the region. We are seeing buyers who still want to get into the market and purchase in the area but cannot come up with the pricing that sellers became accustomed to during the low-interest rate periods of the previous few years. Most owners, as well as buyers, are going through a “price discovery” process and the new normal where the high interest rates will affect their purchasing power.

In South Santa Barbara County this year, we saw roughly 17 transactions of 5+ units (excluding student housing in Isla Vista), slightly below what we saw in 2022. We still expect to see strong buyer interest in 2024 for multi-family properties, with investors being more cautious in the current environment and putting more emphasis on the property’s physical investigation and current income, with less emphasis on their proforma models.

Another factor affecting buyers’ underwriting is the cost of insurance in California, with several major carriers moving out of the state. Investors are seeing insurance costs at times double, directly cutting into their bottom-line expenses and adjusting the property’s net operating income, thus affecting its value. We are starting to see a realignment with pricing as sellers adjust their expectations and move away from what they would have expected two years ago when interest rates were historically low. As the multifamily market is recalibrating in this higher interest rate environment, with the outlook of rate cuts in 2024, we expect to see sales increase in 2024 compared to 2023. Significant capital has been on the sidelines for the past 12 to 18 months, and investors are looking for opportunities to deploy capital. There is still some price discovery playing a factor in finding the “true market value,” but we expect to see that gap between buyers and sellers narrow in 2024.

There will still be great demand for rentals among tenants with the high cost of ownership in our Central Coast region. The combination of higher interest rates and elevated pricing for single family homes that we are currently seeing promotes renting versus purchasing homes in this region. This affordability gap only adds a greater emphasis on the demand for additional multifamily development in the market.

In 2023, we saw higher borrowing costs continue to complicate multifamily investments. We expect that to ease in the second half of 2024 as the Fed has signaled rate cuts toward the end of Q2. As investors see more clarity on interest rates and local government dynamics regarding tenants and tenants’ rights, we should see a positive impact on multi-family sales throughout SLO, Santa Barbara and Ventura Counties.

We continue to expect strong buyer demand for multi-family properties throughout 2024, but with limited listings available.

2023 So. Coast Leasing Quick Stats

VACANCY

		Q3.23	Q4.23
OFFICE	Santa Barbara	13.3%	9.9%
	Goleta	9.5%	7.9%
	Carpinteria	30.1%	27.8%
INDUSTRIAL	Santa Barbara	0.9%	0.6%
	Goleta	3.1%	3.0%
	Carpinteria	3.0%	2.2%
RETAIL	Santa Barbara	2.1%	2.5%

GROSS ABSORPTION (SF)

		Q3.23	Q4.23
OFFICE	Santa Barbara	69,000	66,300
	Goleta	72,600	65,900
	Carpinteria	5,400	3,600
INDUSTRIAL	Santa Barbara	28,800	13,300
	Goleta	115,600	20,400
	Carpinteria	0	900
RETAIL	Santa Barbara	46,700	16,900

AVG. GROSS ASKING RATES ($/SF)

		Q3.23	Q4.23
OFFICE	Santa Barbara	$3.27	$3.17
	Goleta	$2.14	$2.20
	Carpinteria	$2.66	$2.67
INDUSTRIAL	Santa Barbara	$2.47	$2.37
	Goleta	$1.93	$2.04
	Carpinteria	$1.76	$1.54
RETAIL	Santa Barbara	$4.11	$4.26

AVG. GROSS ACHIEVED RATES ($/SF)

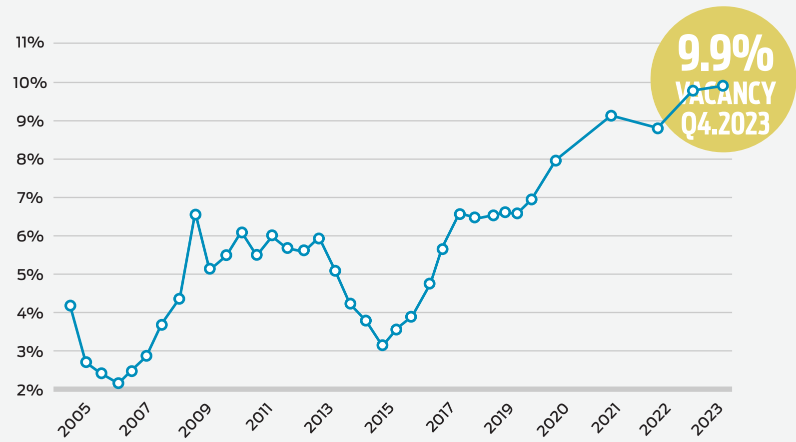
		Q3.23	Q4.23
OFFICE	Santa Barbara	$2.99	$3.17
	Goleta	$2.22	$2.33
	Carpinteria	$1.70	$1.73
INDUSTRIAL	Santa Barbara	$1.92	$2.73
	Goleta	$1.94	$1.69
	Carpinteria	N/A	$2.30
RETAIL	Santa Barbara	$4.23	$3.61

Q4 South Coast Leasing Summary

Office

The 4th quarter of 2023 experienced continued stable leasing activity in the Santa Barbara office sector with roughly 66,000 SF in new leases signed, just under the 69,000 SF transacted in Q3. The largest Q4 deal was the 10,000 SF lease at 118 E. Carrillo St. But perhaps the most notable aspect of the quarter is the downward adjustment of Santa Barbara's office vacancy rate which finished the year at 9.9%, previously reported at 13.3% in Q3. As of the drafting of this report, the sizable downtown Macy's building in the Paseo Nuevo Mall is no longer on the market for lease as tech-office space. As such we are no longer including that 132,000 SF chunk of space as vacant. By the end of September news broke that the Santa Barbara City Council passed a plan to start negotiations to

Santa Barbara Office Vacancy



demolish the mall, proposing to replace it with at least 500 new housing units. Subsequently the owners of the improvements at the Macy's site turned their focus to converting the property to apartments.

Other adjustments to the vacancy rate were made with regard to the former Nordstrom building at the other corner of the mall. We are now counting 112,000 SF as office, and excluding the basement portion of the development, as well as the first floor which is considered likely retail use. The removal of the Macy's square footage and the shrinking of the available office space marketed at the former Nordstrom combined to impact Santa Barbara's office vacancy rate more so than any actual leasing activity from the 4th or any other quarter in 2023.

Moving on to Goleta, the office vacancy rate dropped to 7.9% by the end of Q4, its lowest level since the middle of 2022. While this dip came as a bit of a surprise to many observers, the decrease in vacancy rate was due in part to Toyon taking an additional 15,000 SF to expand their local operations, and Conerstone Medical leasing 10,000 SF in the newly renovated 130 Robin Hill Rd. building. The largest vacant office spaces in Goleta remain AppFolio's 43,000 SF on market for sublease, and the 29,000 SF also available for sublease at 6500 Hollister Ave.

Rounding out the South Coast, Carpinteria's office vacancy rate remains

Leasing Summary Continued on P.7

Q4 South Coast Leasing Summary

Continued from P.6

abnormally high at 27.8%. During Q4 there were just two small office leases, including 2,917 SF at 4180 Via Real and 635 SF at 5320 Carpinteria Ave. Again, the majority of this vacancy is due to the 78,000 SF which ProCore has on market for sublease. As we have seen in previous years, the vacancy rate can change quickly in Carpinteria if just one or two larger leases are signed.

Industrial

Fourth quarter industrial leasing activity was notably quiet, yielding just eight new leases totaling 35,000 SF between October and December in all of the South Coast, compared to 12 leases and 144,000 SF for the previous quarter. Making up most of those Q4 deals were an 11,000 SF space at 30 S. La Patera in Goleta and a 10,000 SF storage space at 30 S. Calle Cesar Chavez in Santa Barbara. The vacancy rate in Santa Barbara remains below 1% and has been this way since early 2021, while Carpinteria and Goleta both also remain stable with slight vacancy decreases to 2.2% and 3.0% respectively for the quarter.

We continue to see the highest demand for space below 10,000 SF as we have witnessed some larger industrial spaces sitting on the market for longer periods of time. The ownership of the old West Wind Drive-In Theater site at 907 S. Kellogg Ave. in Goleta, which closed permanently in 2022, reportedly is working on an industrial development which will be welcomed by the market, but delivery of the roughly 70,000 SF of new building entitlements is apparently still a few years out. We expect rates to remain stable/flat and do not foresee any significant changes in our low industrial vacancy market in the near term.

Retail

Retail leasing slowed significantly on the South Coast during the 4th quarter, countered by some positive activity on State Street in downtown Santa Barbara.

During Q4 there were just five new retail leases totaling 16,000 SF, which had little overall impact on inventory compared to the 20 new retail Leases in Q3. Food & beverage business was the most active during Q4 with three out of the five leases completed for new restaurants.

The largest retail lease of Q4 was to Isla Vista Food Cooperative at 1533 State St., totaling 5,900 SF. This lease did not actually absorb any vacant space as the location is currently occupied by Cantwell's Market & Deli. The site is poised for a mixed-use redevelopment and it will be interesting to see if or how this new grocery tenant is integrated into the future space.

All five retail leases remarkably were in downtown Santa Barbara and the three new restaurants will replace existing food and beverage sites. At 716 State St. we have Best BBQ

Expansion | 26 Castilian Dr., Goleta
±37,029 SF Office (Toyon)
12/6/2023

Leased | 118 E. Carrillo, Santa Barbara
±10,627 SF Office
12/12/2023

Leased | 30 S. La Patera, Goleta
±11,127 SF Industrial
12/6/2023 (Inogen)

filling the 1,952 SF former Mokutan Japanese. Another notable restaurant lease was at 129 E. Anapamu St., which has hosted numerous operators in recent years. The close proximity to State Street and the prominent views of the courthouse make this appear to be a highly desirable space for the new Café la Fonda. Although OPPI'Z Bistro and Natural Pizza closing at 1026 State St. was not welcome news, the 2,800 SF space quickly leased to Indian restaurant Tandoori Kingdom.

The lack of retail leases in the other parts of the market does not show negative signs for the retail sector, as the limited inventory on Upper State and Montecito portray a very competitive outlook for prime locations.

With retail leasing nearly stagnant at the end of 2023, the overall Santa Barbara retail vacancy rate shifted marginally from 2.1% in Q3 to 2.5% in Q4, due in part to about 33,000 SF being refactored into the inventory by moving the first floor of the old Nordstrom building into the retail bucket. Asking rates for Santa Barbara retail are averaging $4.26/SF Gross Equivalent (Base Rent + NNN) which redirected the downward trend for the past year. However, achieved rates decreased from $4.23/SF Gross Equivalent to $3.61/SF Gross Equivalent (Base Rent + NNN) in Q4. The low number of leases signed and lack of deals in more expensive parts of the market like Montecito drove this decrease. The Q4 sales of 921 State and 801 State continued the positive trend of storefronts selling downtown. These sales will help combat the high retail vacancy on State Streets downtown core with new investment in tired buildings.