

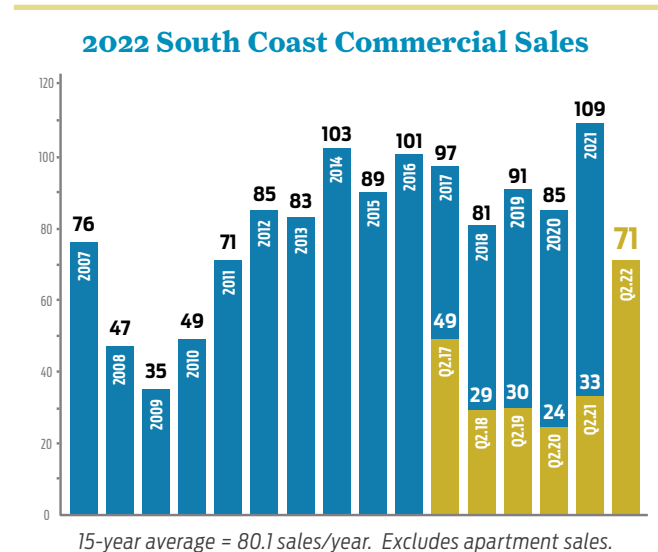
QAD Campus Leads Stellar Q2 Sales

Trophy properties, hotels & more State Street deals highlight quarter

The South Coast saw another definitively strong quarter for commercial sales as activity continued to accelerate, solidifying a very strong first half of the year and putting things on par with the record-breaking two previous quarters. The same trends persisted and we attribute most of the quarter’s activity to leftover demand from previous quarters as many of these closings started in Q4 2021 or early Q1 2022.

Specifically **the market tallied 41 total sales during the second quarter, with \$254MM in volume** (excluding hotel sales volume), marking a significant uptick from the first quarter’s 30 sales / \$152MM. (It should be noted that \$104MM of this total came from the quarter’s largest sale alone, more on that below) Q2 2022 also easily bested Q2 2021’s 21 sales / \$90MM. The quarterly breakdown by commercial category included 14 office sales, 11 retail, 8 industrial, 4 land and 4 hotel.

Trophy properties, hotels and more State Street properties trading are the three main trends from the quarter. Two of those trophy properties were located at 1221 Coast Village Rd. & 1801 E. Cabrillo Blvd. in Montecito, but perhaps the most notable of all was the sizeable QAD campus trading hands for \$104MM as mentioned earlier. There were also five (5) State Street properties that sold, a rare occurrence and overall indication that some legacy owners of trophy assets have been taking advantage of the market. And in the hot hotel sector, we saw four (4) hotels trade including another Funk Zone hotel (The Waterman),



QAD Campus • 100–101 Innovation Pl., Summerland
122,925 SF Office Complex | \$104MM • \$846/SF
6/22/2022



and three (3) Motel-6’s, validating continued strong demand for hospitality product on the South Coast.

While there was more of an even spread between investor and owner-user buyers in the market in Q2, **we continued the trend seen over the last few quarters of more investors in the market (22 investors / 19 owner-users)**, with exchange buyers accounting for six (6) of the quarter’s investor sales.

Even though we’re pacing well ahead of the 15-yr. average

Commercial Sales Summary Continued on P.2

Q2 Commercial Sales Summary

Q2 Quick Stats

41

Q2 SALES
VS. 21 Q2.21

54%

INVESTOR SALES (22)
VS. OWNER-USER (19)

\$104MM

LARGEST Q2
COMMERCIAL SALE

\$254MM

Q2 SALES VOLUME
VS. \$90MM Q2.21
(Excludes Hotel Sales Volume)

Continued from P.1

of 80 sales per year, we should not expect the second half of 2022 to play out in quite the same fashion. Since the beginning of the current quarter, deals have fallen out of escrow, re-trades are present and overall buyer sentiment appears to be somewhat bleak. The main factors influencing an expected cooling include interest rates changing almost daily, continued rising construction costs, and a significant drop in the stock market—all of which have led to the public’s overall negative economic outlook. For the remainder of the year, we forecast a slight increase in inventory and an adjustment to asking prices as some sellers try to take advantage of the market and some try to get ahead of the slowdown. Typically during these adjustment periods sellers are much slower than buyers to accept change and we will probably see that manifest in the coming months.

Notable Q2 2022 Sales

- **100-101 Innovation Pl. “QAD Campus”** ▪ ±122,925 SF Office Complex in Summerland (\$104MM)
- **1801 E. Cabrillo Blvd. “Las Aves”** ▪ ±31,634 SF Office/Retail Complex (\$19.25MM)
- **1221-1224 Coast Village Cir.** ▪ ±17,640 SF Office/Retail Complex (\$17.25MM)
- **12 E. Montecito St. “The Waterman Hotel”** ▪ 41-key Boutique Funk Zone Hotel (\$15.55MM)
- **201 W. Montecito St. “The Hangar”** ▪ ±12,700 SF Creative Office/Auto Showroom (\$8.9MM)

1801 E. Cabrillo Blvd., Montecito
“Las Aves” Office Complex | ±31,634 SF
\$19,250,000 | 5/3/2022



1221-24 Coast Village Cir., Montecito
Office/Retail | ±17,640 SF
\$17,250,000 | 6/3/2022



12 E. Montecito St., Santa Barbara
The Waterman Hotel | 31 Keys | \$15,550,000
6/23/2022



Q2 Multifamily Sales Summary

Santa Barbara South County

There remains strong demand for multifamily properties in Santa Barbara South County, with very little inventory coming to market at this time. A total of three (3) investment properties 5+ units in size sold in South Santa Barbara County in Q2 of 2022, the largest being in Isla Vista, the 22-unit student housing complex located at 6587 Cervantes Rd. & 759 Embarcadero Del Mar. The property, which includes ±13,500 SF of land currently being used for additional parking, received multiple offers before closing for \$9,800,000.

With the above-mentioned limited inventory in South County, we are seeing considerable interest when properties come to market, though buyers are also aware of the current hikes in interest rates which has become a more prevalent conversation. Still, increased interest rates, as well as looming concern over new rent control specifically in the City of Santa Barbara, has not deterred investors in the market at this time and many are still quite interested in investing in South Santa Barbara County.

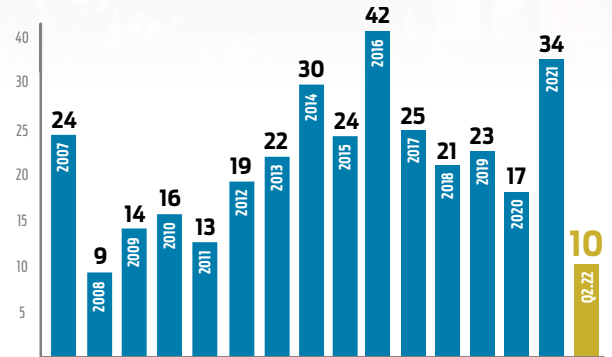
The City of Santa Barbara’s apartment rental vacancy rate is still hovering in the 2% range for Q2 of 2022. This is the lowest sustained vacancy rate Santa Barbara has seen in recent years. Limited new supply coming on the rental market coupled with greater demand, creates a situation where rental rates raise to new market highs when properties do come available.

While Summerland and Carpinteria saw zero transactions above 5 units during the second quarter, in Santa Barbara there were two (2) transactions, at 2024 Anacapa St. (9 units) & 111 N. La Cumbre Rd. (17 units). The property at 2024 Anacapa, a historical Victorian situated in Santa Barbara’s coveted Upper Eastside neighborhood, sold above asking for \$4,000,000 (\$444,444/ unit). The 9-unit asset includes (7) 1BD+1BA units, (1) studio and a separate 3BD+1BA house located in the rear of the property. One of the building, a multi-level carriage house,

6587 Cervantes Rd. & 759 Embarcadero Del Mar, Isla Vista
22 Units | \$9,800,000 (\$445,455/Unit) 3.1% Cap
4/12/2022



2022 South County Multifamily Sales



Sales of Multifamily properties 5+ Units in size

was once used as a school auditorium and features stairs leading up to an old stage that now houses a 3-bedroom apartment. The ±0.49-acre grounds span from Anacapa St. to Green Ln.

The asset at 111 N. La Cumbre Rd. is a 17-unit building which also received multiple offers and traded above asking price at \$6,850,000 (\$402,941/unit). While this was very under market on a price-per-unit basis given the current condition of the building, the property offered great upside potential with the opportunity for a buyer to perform extensive renovations and upgrades to have the ability to grow rents.

Santa Barbara North County

During the second quarter we saw four (4) multifamily transactions in the North County between Solvang (2), Santa Maria (1) and Lompoc (1). The off-market deal involving 1532 Acorn Way in Solvang (58 units) closed for \$14,050,000 or \$242,241/unit, with all 2 bed/1 bath units. The other transaction in Solvang was a 12-unit property located at 253 & 263 3rd St. which sold over asking for \$4,200,000 or \$350,000/unit at a CAP rate of 2.49%. This property was sold with one vacant unit as well as under market rents.

Overall the largest deal in North County came in Lompoc with Windscape Village Apartments at 1300 N. L St., a 328-unit property which sold for \$88,750,000 (\$270,579/unit). This property was built in 1986 and includes 260,864 SF building on 18.53 acres and consists of 152 1 bed/1 bath units and 176 2 bed/1 bath units.

Multifamily Sales Summary Continued on P.4

Q2 Multifamily Sales Summary

Continued from P.3

Meanwhile in Santa Maria, 1314 S. Broadway sold for \$17,250,000. The property includes 125 residential units and two (2) commercial units with the opportunity to develop an additional 52 units on the ±4.89 acre parcel. Located on a high profile corner, the property is a Senior Resident Facility where residents must be age 55+.

W. Ventura County

Moving down to the West Ventura County market, we saw one (1) transaction over 5 units in Q2 2022.

Woodland Manor located at 6073 Woodland St. in the City of Ventura was a 40-unit property which sold for \$14,675,000 (\$366,875/unit) at a 3.24 % CAP Rate. The property was built in 1969 and is centrally located on a ±48,787 SF lot within walking distance to shopping, dining and entertainment. The property consists of 38 2 bed/2 bath units, (1) 2 bed/1 bath and (1) ADA 1 bed/1 bath apartments. Woodland Manor was very well maintained and under market rents and represented a great opportunity for a buyer to realize excellent current cash flow as well as the ability to invest in the property to reach its maximum potential.

In recent months the City of Ventura has been gaining a good deal of interest from both renters and investors alike as the vacancy rate in W. Ventura County has hovered around 3%, highlighting the influx of tenants moving to this region over the past year which also was reflected in the rapid growth of rental rates in the first half of 2022.

San Luis Obispo County

San Luis Obispo's rental vacancy rate has dropped over the past year and is now current slightly above 3% in Q2 of 2022. There is strong demand from buyers in the market but very limited opportunities for multifamily investments in the area. SLO County saw just one (1) transaction that was completed off-market. Located at 3239 Broad St., San Luis Obispo, this 8-unit building was built in 2013 and sold for \$1,500,000, representing a price unit of \$187,000. The 6-One-bedroom/ 2-Three-bedroom property had an agreement with the City of San Luis Obispo to provide low-income housing.

1314 S. Broadway, Santa Maria
127-Unit Senior Facility on ±4.89 Acres
\$17,250,000 | 6/22/2022



Q2 South Coast Leasing Summary

2022 SO. COAST LEASING QUICK STATS

		Vacancy	
		Q1.22	Q2.22
OFFICE	Santa Barbara	9.7%	8.5%
	Goleta	6.1%	5.8%
	Carpinteria	9.7%	12.6%
INDUSTRIAL	Santa Barbara	0.8%	0.5%
	Goleta	3.5%	2.8%
	Carpinteria	2.8%	2.4%
RETAIL	Santa Barbara	2.8%	2.6%

Quarterly Absorption (SF)

		Q1.22	Q2.22
OFFICE	Santa Barbara	66,000	119,500
	Goleta	33,900	16,600
	Carpinteria	N/A	3,500
INDUSTRIAL	Santa Barbara	8,500	24,800
	Goleta	18,100	54,400
	Carpinteria	22,600	2,000
RETAIL	Santa Barbara	84,800	31,000

Avg. Gross Asking Rates (\$/SF)

		Q1.22	Q2.22
OFFICE	Santa Barbara	\$3.25	\$3.27
	Goleta	\$2.07	\$2.04
	Carpinteria	\$2.19	\$2.20
INDUSTRIAL	Santa Barbara	\$1.98	\$2.81
	Goleta	\$1.75	\$1.98
	Carpinteria	\$2.06	\$1.87
RETAIL	Santa Barbara	\$4.04	\$4.28

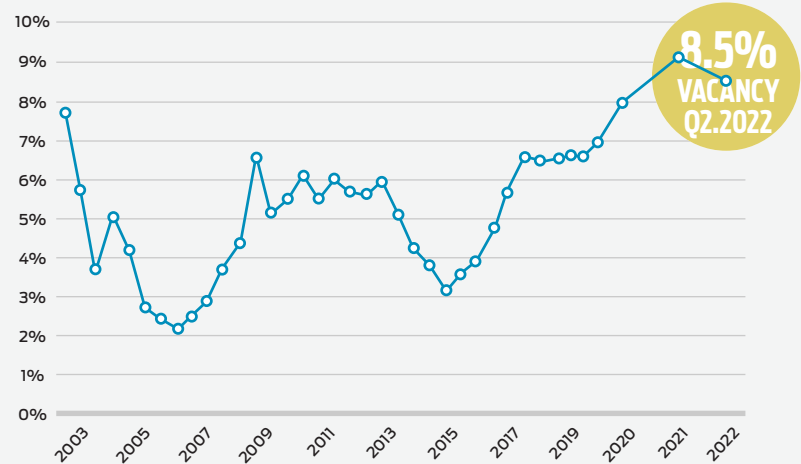
Avg. Gross Achieved Rates (\$/SF)

		Q1.22	Q2.22
OFFICE	Santa Barbara	\$3.22	\$3.21
	Goleta	\$2.10	\$1.90
	Carpinteria	N/A	\$1.75
INDUSTRIAL	Santa Barbara	\$2.23	\$2.40
	Goleta	\$1.77	\$1.68
	Carpinteria	\$1.29	\$1.65
RETAIL	Santa Barbara	\$3.05	\$3.51

Office

Santa Barbara's office vacancy rate ticked down from 9.7% in Q1 to 8.5% in Q2 2022. That said, at this time we are not including the approximate 90,000 SF of office space in the former Nordstrom building as that space is not deliverable until Q1 2024. However, the vacancy rate does include the 87,500 SF of available office space at the former Macy's site at 701 State St. For the quarter, there were three leases over 10,000 SF in Santa Barbara which included Bartlett, Pringle & Wolf, LLP renewing their lease at 1123 Chapala St; Hawk Applications expanding into 12,320 SF at 925 De La Vina St.; and American Riviera Bank taking 10,500 SF at 3780 State St. While there remains not much tenant activity in the market, we are yet to see vacancy rates rise.

SANTA BARBARA OFFICE VACANCY



Down in Carpinteria, the office vacancy rate increased from 9.7% in Q1 to 12.6% during Q2. The largest available space remains the ProCore sublease at 6267 Carpinteria Ave. (25,000 SF). The vacancy rate could change dramatically depending on how ProCore and Microsoft/LinkedIn envision their local operations post COVID. The parking lots at Microsoft's LinkedIn campus on Mark Avenue remain empty. There was just one new office lease signed in Q2 which was for 3,500 SF at 1013 Mark Ave.

Finally in Goleta, the office market saw vacancy decrease from 6.1% in Q1 to 5.8% in Q2. There were two new office leases signed over 5,000 SF including Jordano's taking 9,700 SF at 5425 Hollister Ave., while SoftAcuity leased 5,700 SF of tech office at 5540 Ekwill St. There are rumblings of a number of tech tenants possibly putting some large chunks of office space on the market for sublease. If this takes place during Q3 2022 we will most likely see the vacancy rate rise.

Leasing Summary Continued on P.6

Q2 South Coast Leasing Summary

Continued from P.5

Industrial

Overall the industrial leasing market experienced lower vacancy rates throughout the South Coast during the second quarter. Two notable leases contributing to this include a 49,276 SF deal with Curvature at 7418 Hollister Ave. in Goleta, and a 15,674 SF lease by Katz-Moses Group at 4183 State St., Santa Barbara. It's also worth noting that this was the first quarter since 2017 in which Goleta, Santa Barbara and Carpinteria were all below 3% vacancy rates. Meanwhile lease rates saw little movement and remain stable after years of increases.

While inflation is putting pressure on businesses' operational expenses, we do expect to see rates increase slightly in the second half of 2022. As we have mentioned in past reports, the industrial sector remains the most predictable and stable segment of the South Coast commercial market.

Retail

During the second quarter of 2022 there were 14 new retail leases signed totaling just over 31,000 SF. That's eight (8) more leases than were signed during Q1. These Q2 lease transactions ranged in size from approx. 542 SF – 6,000 SF, with Alpha Resource Center taking 6,000 SF at 3845 State St. (former Sear's Auto building). Other notable leases included 132 E. Montecito St. where a confidential tenant leased approx. 5,462 SF in the Funk Zone, and at 833 State St. where the popular active apparel brand Vuori leased approx. 2,918 SF at the high visibility corner of State & Canon Perdido Streets.

On the vacancy front, Santa Barbara's retail vacancy rate clicked downward slightly from last quarter's 2.8% rate to 2.6% in Q2. The average asking rate for Santa Barbara retail increased, currently sitting at \$4.28/SF Gross Equivalent (Base Rent + NNN). The average achieved lease rate also increased, going from Q1's \$3.05/SF Gross Equivalent to \$3.51/SF Gross Equivalent (Base Rent + NNN) in Q2. With limited number of new lease transactions occurring, achieved rates can fluctuate dramatically. The current \$3.51/SF Gross Equivalent average achieved rate is in the range of the \$3.00–\$4.00/SF average that we have been tracking since Q4 of 2020. The true market rate of a retail building/ space is dictated by the specific location and size of the retail asset.

At the end of Q2 there was just over 268,000 SF of retail space for lease in Santa Barbara, down from Q1's total of approx. 293,000 SF.

**Leased | 7418 Hollister Ave., Goleta
Industrial | ±49,276 SF (Curvature)**



**Leased | 1123 Chapala St., Santa Barbara
Office | ±15,503 SF (Bartlett, Pringle & Wolf, LLP)**



**Subleased | 3845 State St., Santa Barbara (Former Sears Auto)
Retail | ±6,000 SF (Alpha Resource Center)**



Q2 South Coast Leasing Summary

Downtown State Street Q2 Retail Update

The beginning of Summer in Santa Barbara was highlighted by positive activity for the downtown corridor with an overall decrease of available retail storefronts on State Street. Perhaps the most exciting deal involved hip retailer Vuori signing a long-term lease at 833 State St. in the former Wendy Foster storefront. It's a welcome site having this highly visible corner location filled by the popular performance brand which fits well with the Santa Barbara lifestyle.

The downtown food scene also continues to turn with Sate Street gaining Taza Mediterranean at 413 State St. Broad Street Oyster Co expanded from their small seating area into the former Modern Times Bar and Patio at 418 State St. Live music near eateries continues to invigorate the experience and attract both locals and tourists to downtown. Satellite, Sama Sama and the Good Lion all had large crowds on a Tuesday night due to DJ's and bands creating a lively atmosphere on the closed street.

The 900 block continues to experience limited progress with nine (9) vacancies. Signs of a changing downtown economy continue in the 1000 block where two more sales closed at 1019 State and 1027 State. The overall decreasing vacancy, and other notable trends like growing E-bike traffic, all continue to point to the positive effect the partial street closure has had on downtown State Street.

State Street Retail Vacancy

	Q1.2022	Q2.2022
Total Storefronts	249	249
Storefronts Available For Lease	37	33
Vacancy Rate of Storefronts Available For Lease	14.86%	13.25%
Vacant Storefronts	24	20
Perceived Vacancy Rate	9.64%	8.03%
Storefronts Still Occupied by Tenant	3	3
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 4/10/2021.

New Leases

During Q2 2022, we observed at least four (4) new retail tenants on downtown State Street:

- **1027 State St. — Restaurant Sale (±3,580 SF)**
- **833 State St. — Vuori (±2,918 SF)**
- **413 State St. — Taza Mediterranean (±2,682 SF)**
- **429 State St. — Zoe Bikinis (±756 SF)**

VACANT STOREFRONTS BY THE BLOCK

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





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