



# PACIFICA

## COMMERCIAL REALTY

### COMMERCIAL MARKET UPDATE

#### Quick Stats

Arrows indicate change from Q3 '12

#### Office/R&D Vacancy

Santa Barbara .....	5.3%	▲
Goleta .....	10.3%	▲
Carpinteria .....	16.3%	▲

#### Industrial Vacancy

Santa Barbara .....	1.2%	▲
Goleta .....	1.8%	▼
Carpinteria .....	4.4%	▼

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#### 2012 Year in Review

The big story as we look back at 2012, was the tremendous flurry of sales activity at the end of the year. It goes to show that government actions (or inactions) often produce results, although not always what the government planners had intended! In the final quarter of 2012, there were 31 sales of commercial properties, with a combined value of \$140 million dollars. This surpasses the 36 transactions during the preceding 9 months, which had a transaction value of \$110 million dollars! Clearly the investors signaled alarm at the prospect of increasing taxes, including capital gains taxes, treatment of "carried interest", Federal income taxes as well as State levies. If an investor was considering selling, they did it just prior to year-end.

While we welcomed the activity, there is concern voiced throughout the commercial brokerage community, anticipating a slowdown in transaction volume in the year ahead. The deals have been done, and it is anticipated that 2013 will have less transaction volume.

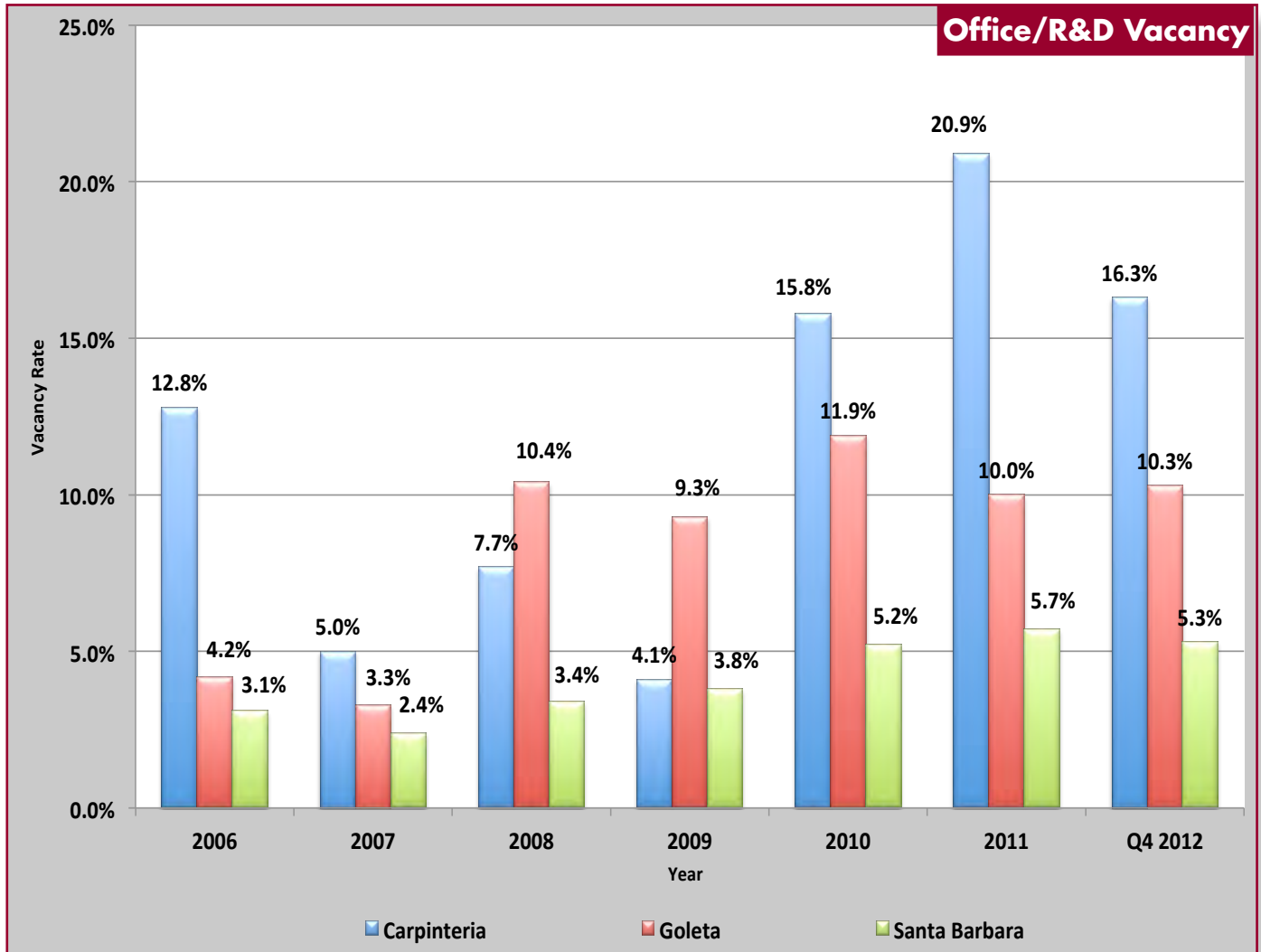
In this author's opinion, the sale of "investment real estate" is not the best indicator of the health of the commercial real estate market. A small group of investors trading assets, or re-positioning their portfolios does not signal a sustained economic recovery. We feel the velocity of corporate real estate transactions in the local, regional, and national markets best indicates the status of the economy. This can be measured by the increase or decrease in vacancy rates, or by measuring net absorption of office, industrial and retail properties. 2012 was not even close to being a banner year in terms of new leasing activity, or decreases in vacancy.

Increasing tax rates does not instill confidence in the private sector, and does little to encourage corporate America to resume hiring and capital investment. If Congress wanted to see a sustainable stimulus to all forms of investment, including real estate, equities, and corporate investment, it might look at the events precipitated by the threat of raising taxes. Study that, and imagine the benefits associated with permanently lowering capital gains! Taxes matter, Q-4 demonstrated that fact very clearly.

For complete market insight, call us at Pacifica Commercial Realty. We provide empirical data and analysis to insure informed decisions.



**South County Office/R&D Market**



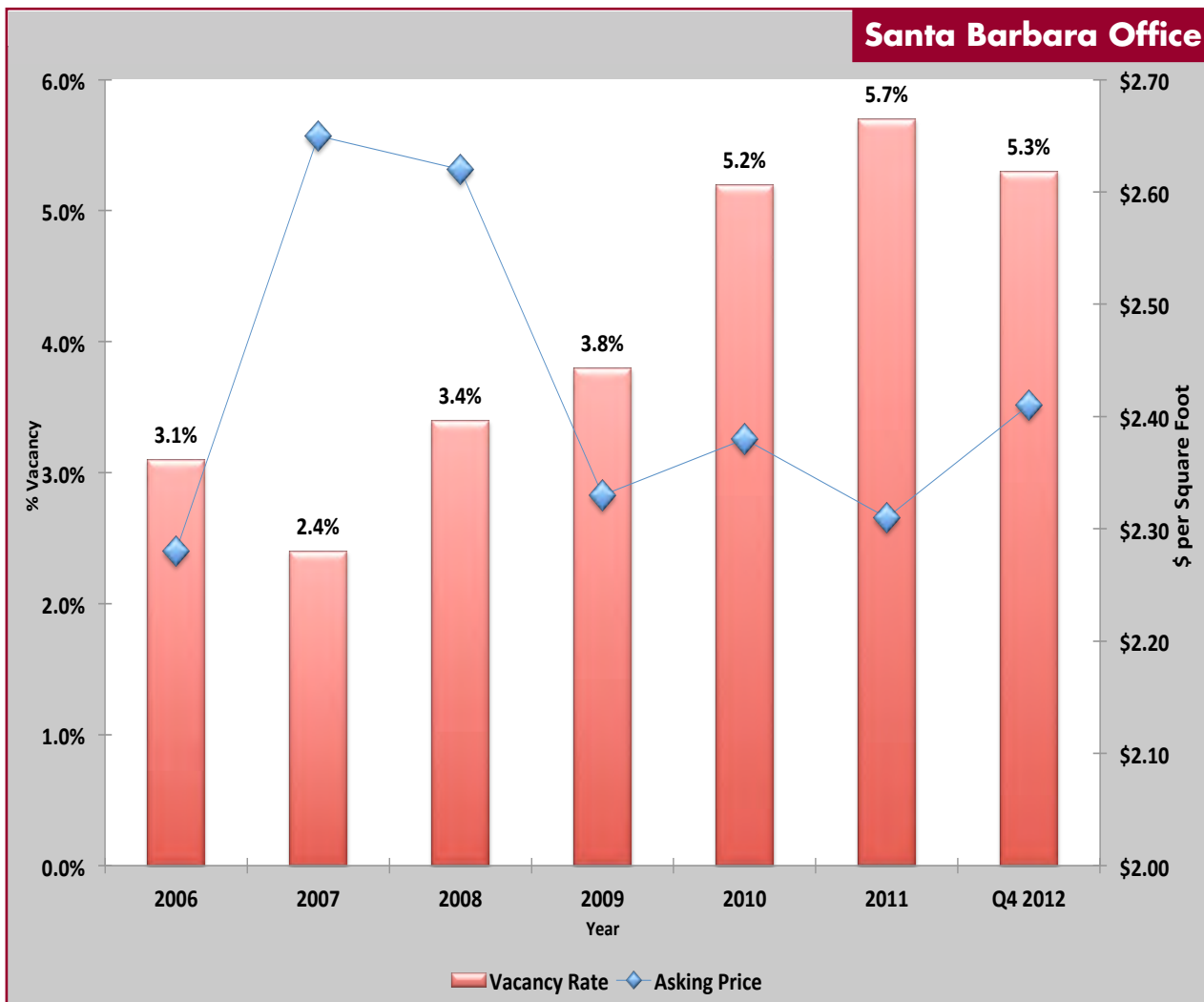
Large 4th Quarter 2012 Lease - Visiting Nurse & Hospice Care  
602 E. Montecito Street - 7,259 SF



### Santa Barbara Office Market

The vacancy rate for the Santa Barbara office market was 5.3% in the fourth quarter, up from 4.9% in the third quarter. The year-end 2011 vacancy rate was 5.7%, marking a slight increase in absorption of space over the year. Some of this is attributed to tenants purchasing vacant buildings as opposed to leasing, by utilizing SBA loan programs and other financing options with historically low interest rates. The most notable instance of this was the 25,900 SF building listed for lease at 121 Gray Avenue, but ultimately purchased by an owner/user. Most of the fourth quarter's leasing activity consisted of small office spaces, all under 3,000 square feet, with the exception of two lease transactions around 7,000 square feet. Gold Coast Surgery Center leased approximately 7,900 SF at 2921 De la Vina, and Visiting Nurse & Hospice Care leased roughly 7,259 SF at 602 E. Montecito Street.

The average asking rate also increased slightly from \$2.34 in the third quarter to \$2.41 in the fourth. Year end 2011 the average asking rate was \$2.31 Gross per square foot, marking a 4% increase in price during 2012.



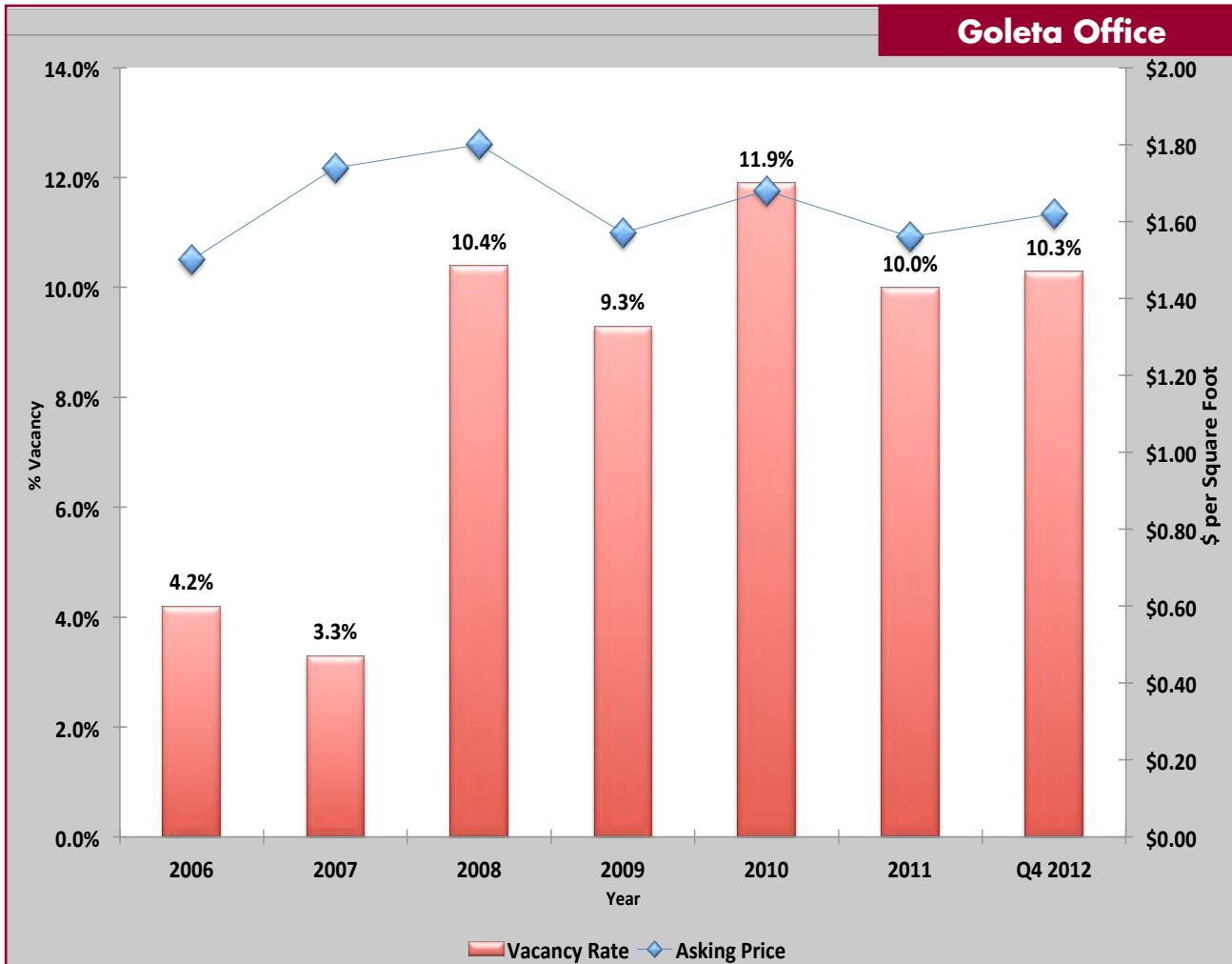


**Goleta Office/R&D Market**

Leasing activity in the Goleta office market stalled during the fourth quarter, as there were very few lease transactions completed. The most notable was Network Hardware Resale expanding into 12,000 SF of space at 6500 Hollister – a building where they already lease 40,000+ SF. The vacancy rate rose marginally to 10.3% during the fourth quarter compared to the 10.1% at the end of the third Quarter, consistent with the year-end 2011 vacancy rate being of 10.0%. These are healthy figures for Goleta as it represents a good balance of supply and demand. This is good for tenants seeking to make a deal, but not such an overwhelming supply of vacant space where landlords are forced to get overly competitive and drop asking prices.

Significant events that may impact this market in 2013 are Union Bank potentially laying off former Santa Barbara Bank & Trust space in two buildings in Goleta; and how potential federal spending cuts may affect local government defense contractors.

The average Gross asking rate for office space remained relatively unchanged at \$1.62 per square foot during the fourth quarter. This is up 4% from the 2011 year end average of \$1.56 per square foot.

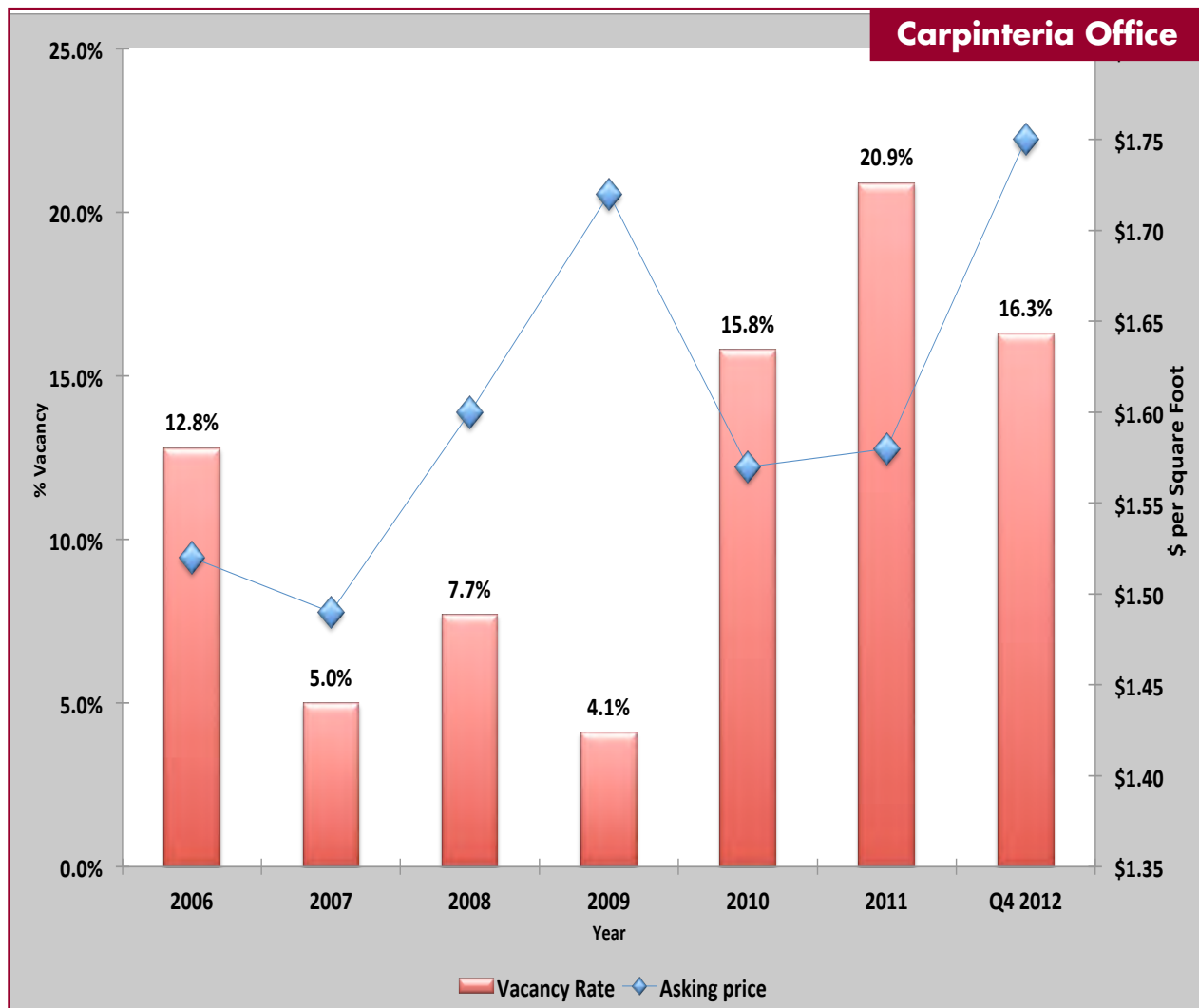




**Carpinteria Office Market**

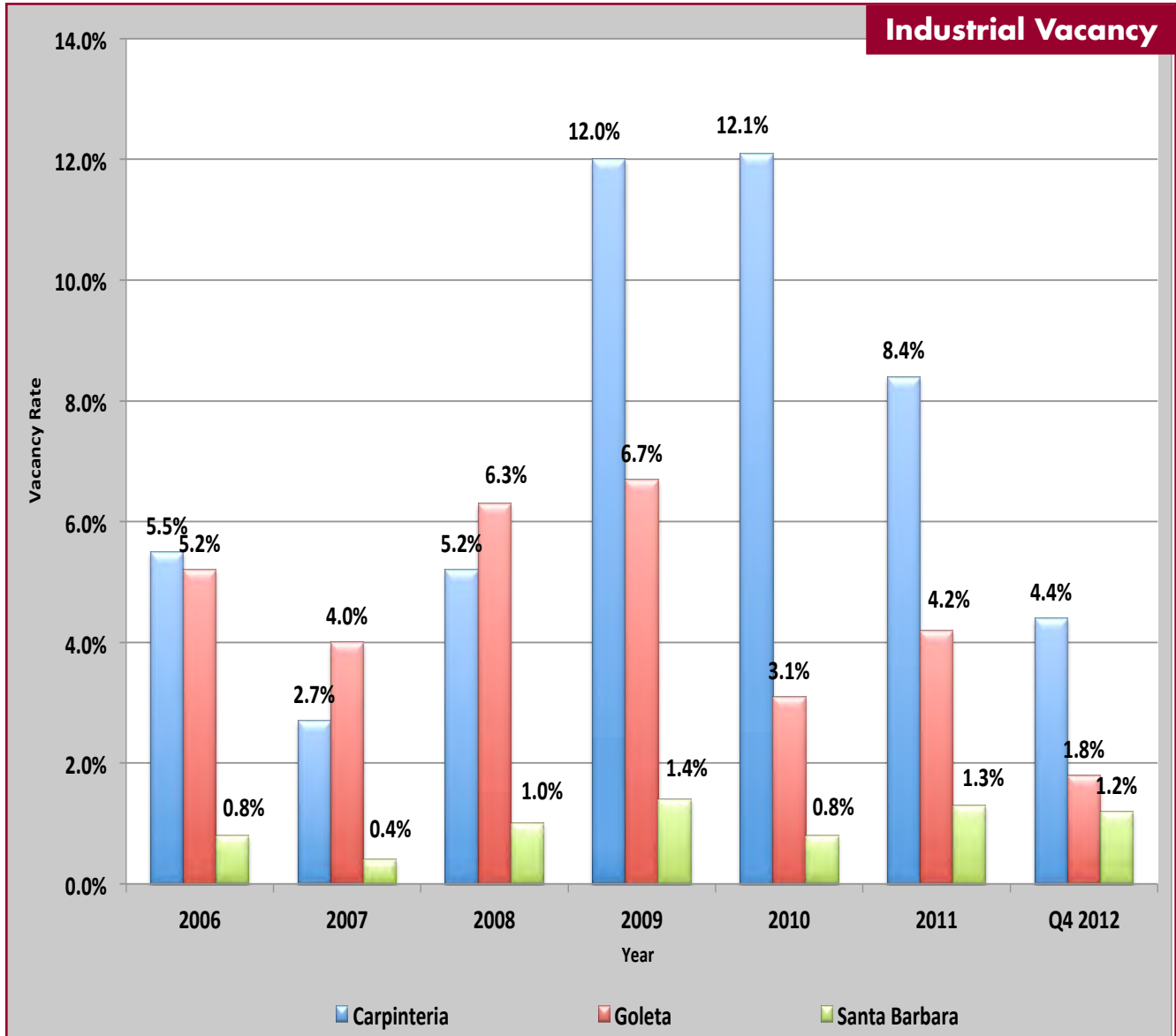
The vacancy rate for the Carpinteria office market was 11.1% in the third quarter and increased to 16.3% at the end of the fourth quarter. As expected and mentioned in our Third Quarter report, the Landlord at 5464 Carpinteria Avenue placed the former Microsoft space back on the market for a direct offering, bringing back the single largest vacancy of last quarter at roughly 25,000 SF. Leasing activity in this market has picked up with a year-end vacancy rate of 16.3%, as compared to 20.9% at the end of 2011, yet both years show similarities. 5464 Carpinteria Avenue continues to be the single largest vacancy, and small to medium sized offices take up the majority of the remaining market. Lynda.com is also continuing to expand in Carpinteria, leasing space adjacent to their current facilities.

The addition of 5464 Carpinteria Avenue back on the market also increased the average Gross asking price, taking it from \$1.67 in the third quarter to \$1.75 in the fourth quarter, due to the higher than average quality of the building.





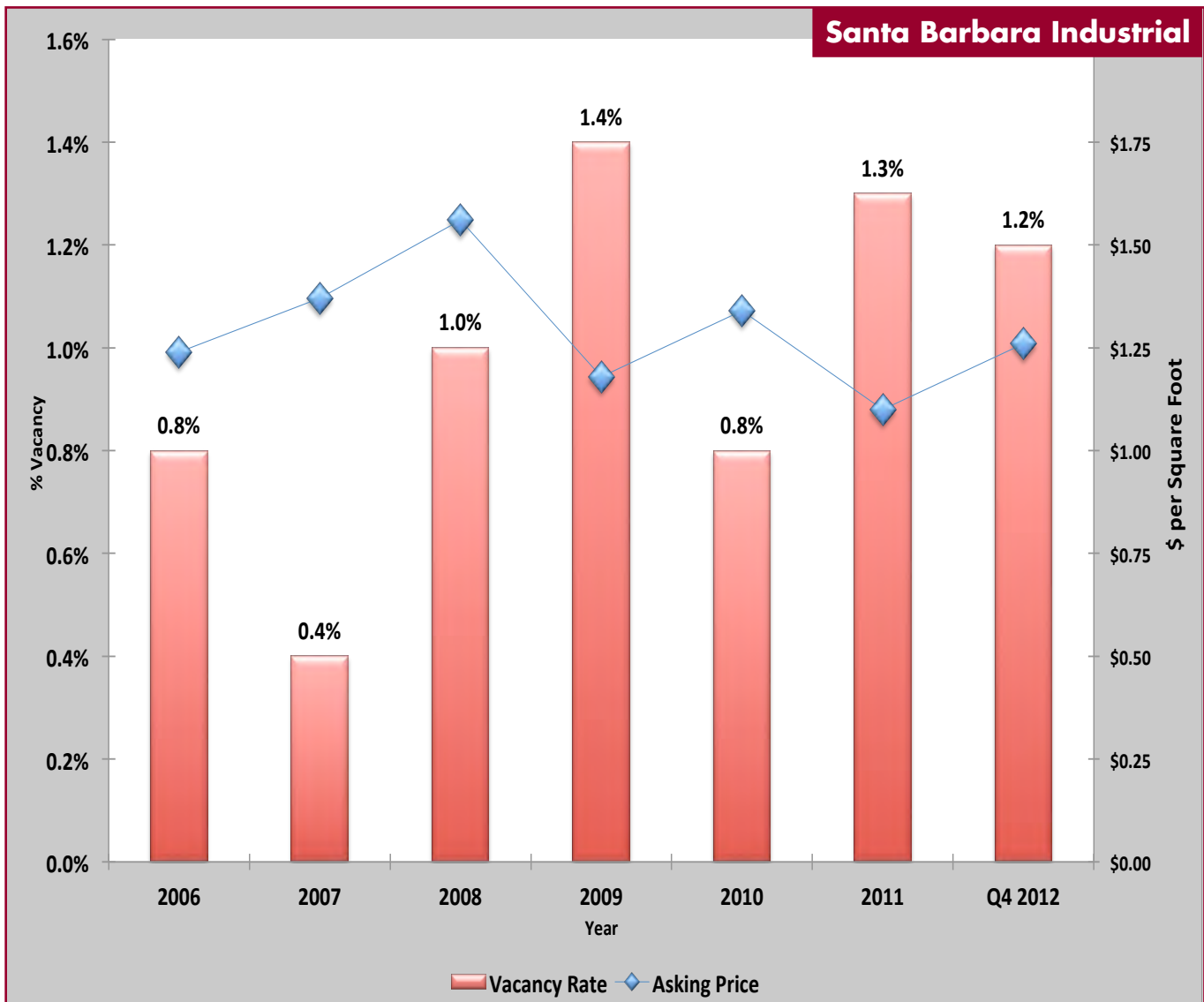
**South County Industrial Market**





**Santa Barbara Industrial Market**

As forecast in our Third Quarter market report, activity during the fourth quarter in the Santa Barbara industrial market was minimal. The vacancy rate increased slightly from 1.1% in the third quarter to 1.2% in the fourth, still remaining well below any other market sector. The average asking price of the fourth quarter also remains similar to the third quarter, increasing from \$1.21 to \$1.26.

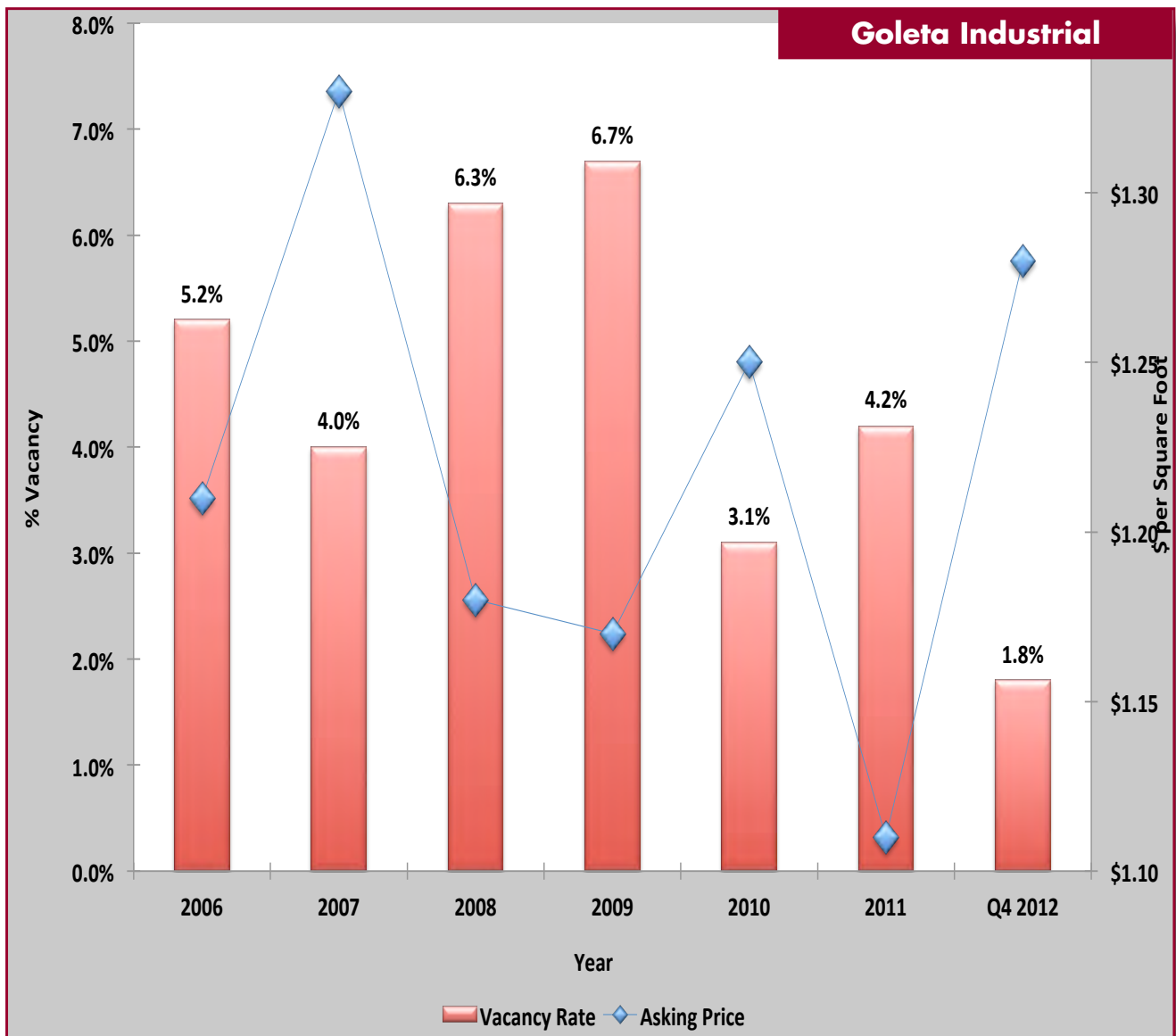




**Goleta Industrial Market**

The vacancy rate for the Goleta industrial market dropped significantly from 4.0% in the third quarter to 1.8% in the fourth quarter. This absorption is largely due to a locally grown Goleta company, CMC Rescue, purchasing approximately 51,000 SF at 6740 Cortona Drive. This is yet another example of a local company using attractive financing options to purchase a vacant building not on the market for sale. CMC is vacating 41 Aero Camino, a 19,870 SF building which is now being marketed for lease. The other notable industrial deal of the quarter was the 12,000 SF lease at 6860 Cortona Drive by Habitat for Humanity. Habitat is moving their Re-Store operation from the Cabrillo Business Park, making room for new development. The 2011 year-end vacancy rate was 4.2%, reflecting a decrease in 2012. This is due to the lease of several large spaces, including 26,000 SF of space at 7406 Hollister Avenue to Citrix, Powell Skate One expanding into 33,000 SF at 30 S La Patera, and 20,000 SF of space being leased by SB motorsports at 6466 Hollister Avenue.

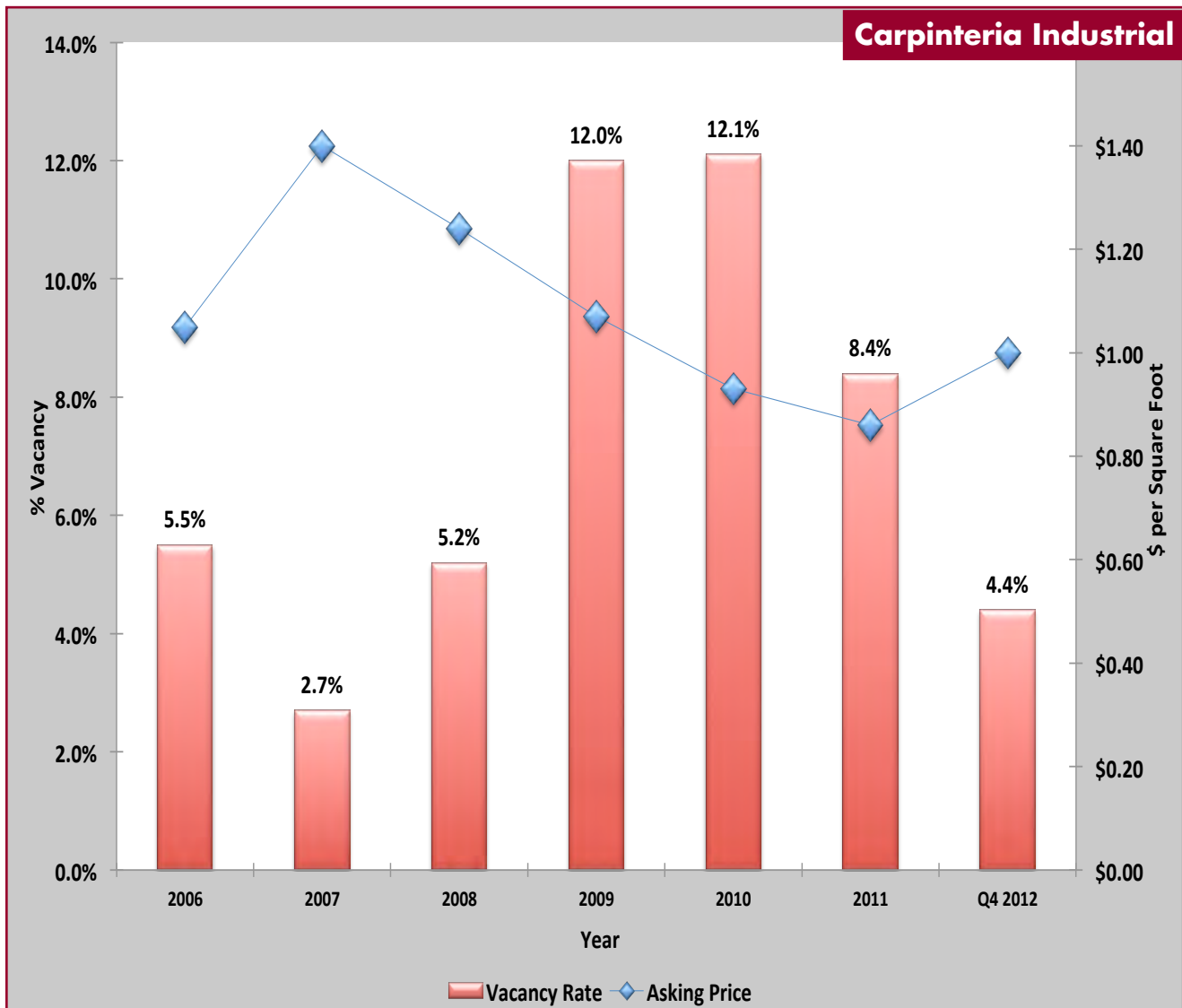
The average asking price increased to \$1.28 in the fourth quarter from \$1.25 in the third quarter.





### Carpinteria Industrial Market

Activity in the Carpinteria industrial market was minimal in the fourth quarter with a vacancy rate of 4.4%, down slightly from 4.5% in the third quarter. Likewise, average asking prices remained almost unchanged, decreasing from \$1.01 in the third quarter to \$1.00 in the fourth. When compared with the 2011 fourth quarter vacancy rate of 8.4%, the current rate of 4.4% is significantly lower. This is largely due to the lease of 39,125 SF at 6382 Rose Lane to local company Gigavac, LLC in June.





## South County Commercial Sales: 2012 Annual Review

The commercial sales activity as defined for this study is the sales of properties including office, industrial, retail, and land, but excluding apartments, hotels, and businesses (not real property). The story for sales in 2012 is a return to strong numbers in all aspects, but the real story is, in fact, the tremendous activity for the last month of the year. December 2012 has to have been the best single month in a decade.

As we approached the end of the year-2012 the number transactions and value of these sales far exceeded anyone's expectations. A major contributing factor has to be the November election results and the impending tax increases to be imposed in 2013 by the current administration in Washington. We are expecting stability but not powerful growth in 2013.

There were 31 deals representing \$140 million dollars in Q4, while the first three quarters posted only 36 deals representing \$110 million. Our total numbers for 2012 show 69 transactions representing \$250 million dollars. This is a tremendous 47% increase over 2011.

Several key "trophy property" transactions were completed last year. Regency Centers sold the Whole Foods Market at a 5.45 % Capitalization Rate for \$35 million. The classic "Santa Barbara" style office building at State and De La Guerra, sold to an investor for \$11.25 million. The buyer of the El Prado motel and the long awaited redevelopment known as La Entrada continues to buy some of Santa Barbara's most significant commercial real estate - with his acquisition of the Chapala One project at \$21.8 million. We saw another trophy property, the Starbucks retail center on Coast Village Road sell for \$10.2 million.

The commercial sales market last year continued to show signs that investors are anxious to purchase hard assets as a hedge against inflation, and they have dominated the market. Owner/users also played a role in sales activity, most of which was financed with SBA financing. The average capitalization rate (Cap Rate) for 2012 was 6.14% for deals that report their CAP rates (not all sales publish income data). This continues to fall in the 6 to 7% range that we have seen for several years. In an extremely hot market the CAP rate will drop to the 5% range. The average price per SF for all properties increased last year from \$265 in 2011 to \$345.

In conclusion, we have survived the most severe recession in decades, which began in 2008 with a robust market during the past year. We anticipate continued investor and owner-user demand in the year ahead, however without the extreme transaction volume witnessed in Q-4, 2012.



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121 Gray Avenue - Tynan Group



### Agents and Contact Information

This Market Report is prepared quarterly by the Pacifica Commercial Realty team in Santa Barbara. Since 1969 we have been providing expert brokerage services for our clientele.

Please contact us for professional consultation relative to any aspect of the commercial real estate market. Pacifica Commercial Realty has offices in Santa Maria and Paso Robles to assist our clients throughout the Central Coast.



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