

North Santa Barbara County Commercial Real Estate

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Key Points

- Large Developments are moving forward in Santa Maria.
- Housing starts are finally out of the gates.
- Commercial inventory is low.
- Active sale transactions.

An Active Real Estate Market Across all Market Sectors

Following in the economic footprints of last year, we are continuing to see growing numbers of sale transactions and increasing confidence with commercial real estate.

Residential

The trend of rising median home prices and decreasing OREO and short sales is continuing. This past year saw a slight increase in total housing unit sales year over year, with the average days on the market to sell a home still hovering around thirty to forty days. “Sticks in the air” housing starts with are visible now that the median price per square foot has crossed the \$200 per square foot threshold (\$204 for 2015). Although the market continues to improve it has not reached the high watermark year of 2006 when the square foot price was \$278.

Single Family Detached Unit Sales: Santa Maria and Orcutt

	2010	2011	2012	2013	2014	2015
Number of Single Family Sales	993	1,045	1,176	1,004	947	1,033
Number of Single Family Sales REO*	364	677	702	307	97	84
Percentage of Total Sales REO (%)	36.66	64.78	59.69	30.58	10.24	8.13
Median Price (\$)	247,000	220,000	227,000	278,900	320,000	335,000
Median Cost Per Square Foot (\$)	154	139	140	168	195	204

Source: Central Coast Regional MLS, Stafford-McCarty Commercial Real Estate

*2011 and forward includes both REO and short sales data

**Data may vary from last year’s reported statistics due to data variable change to accommodate multi-year comparisons and regional area reporting.

Retail/Commercial

Vacancy has decreased to the point that it is getting difficult to find space to lease or to buy.

Santa Maria’s retail sector has little vacancy and consequently, rents are increasing. Good locations see quick absorption while some weaker locations continue to have vacancies for over twelve months.

Year-end 2015 available commercial/retail space is slightly up from last year with 3.4% vacancy at year-end. The vacant retail inventory presently stands at approximately 149,000 sq. ft. out of a base retail inventory of approximately 4,372,000 sq. ft.

In the very near future however, this situation will change. There are five projects that have been approved, or are getting final approval, that will add significant inventory when built to the Santa Maria market. Those projects include:

The 110 acres on the North side of Betteravia and US 101 (formerly known as the Enos property and now renamed Santa Maria Ranch) has been approved for 46 acres of retail, 24 acres of automotive, 17 acres of residential and a new school site. Proposed tenants include Dicks Sporting Goods, Petco, Pier One, Lowes, Costco and a new headquarters for CoastHills Credit Union.

The following projects are still on the books for the area as well:

- The Westgate Marketplace – approximately 130,000 sq. ft.
- Orcutt Plaza – approximately 225,000 sq. ft.
- Orcutt Marketplace – approximately 295,000 sq. ft.

Add to the mix the Zimmerman Development’s rezoning of 52 acres of industrial land into mixed use (noted in the industrial section below) and as you can see that in the next five years there will be a dramatic potential for new inventory to come on line.

One concern is, if all of these projects move forward, how much retail space can the Santa Maria market absorb? The good news for users with more immediate needs, than waiting for a building to be constructed, is as users shift to new locations it creates an opportunity to back fill some existing properties as they become vacant, most likely at a price point significantly lower than new construction.

Retail Vacancy Rates-City of Santa Maria Metropolitan Area								
	2008	2009	2010	2011	2012	2013	2014	2015
Rates(%)	9.80%	12.50%	10.62%	9.98%	6.83%	3.78%	3.40%	3.56%

Source: Stafford-McCarty Commercial Real Estate

Office

If you are looking for office space, the market space is more favorable. For the last two years, the office sector vacancy has hovered at just under 11% (10.61% for 2015). The office component of the market in 2015 has a base inventory of approximately 1,200,000 sq. ft. with just under 128,000 sq. ft. vacant.

Office leasing is spotty. The office market is more active on sales than leasing. Yet pricing is key. Some office products have been on the market for over a year while others have moved quickly.

As we emerge from the period of little or no construction, the new buildings are coming on the market with higher per square foot price tags. Construction costs and mitigation fees associated with new buildings and projects are driving up the purchase price and also the concomitant rental rates.

Noted sales:

El Dorado Broadcasting.	2215 Skyway Drive	4,960 sq. ft.	\$900,000	\$181/sq. ft.
Former Heritage Oaks Bank	2339 South Broadway	5,492 sq. ft.	\$1,500,000	\$273/sq. ft.
Former Accord Engineering	2370 Skyway Drive	13,756 sq. ft.	\$1,725,000	\$125/sq. ft.

Historically, the office segment has been the weakest market segment. An interesting note regarding office space, particularly given that some on these properties have been offered for lease for over a year, some for years, as of late there has been more interest in the sale of these assets than leasing them.

Office Vacancy Rates-City of Santa Maria Metropolitan Area								
	2008	2009	2010	2011	2012	2013	2014	2015
Rates(%)	12.40	12.20	16.70	22.37	17.03	16.61	10.90	10.61

Source: Stafford-McCarty Commercial Real Estate

There have not been any significant sales of land zoned for professional office. There are larger parcels being marketed at approximately \$10.00 per sq.ft. and they have generated little interest in the last several years. Buyers in the market are continuing to respond to the sale of existing buildings, which are still selling below their reproduction costs.

Industrial

This market segment has become incredibly tight with a vacancy factor of approximately 1.8%. This is an historic low for this market segment. Presently the base inventory is approximately 8,280,000 sq. ft.

Current asking industrial rental rates for Flex space from 1,500 sq. ft. units and larger are in the \$0.50 to \$0 .65 sq. ft. gross range. Typical industrial rents are typically \$0.50 to \$0.70 modified gross for second or third generation space. New industrial space is asking \$0.75 NNN for larger spaces.

Some new product: Zimmerman Development has nearly completed two high bay (49,895 sq. ft. each) industrial buildings on Fairway Drive. They have also reworked a 52 acre industrial project and divided it into multiple uses, including retail, office, industrial and apartments

Windset Farms continues its expansion consuming industrial zoned land and, yet again, plans for millions of square feet of additional greenhouses.

Noted sales:

2811 Airpark	36,300 sq. ft.	\$3,625,000	\$99.86 per sq. ft.
807 West Main Street	40,000 sq.ft.	\$2,500,000	\$62.50 per sq. ft
1320 West McCoy	13,000 sq.ft.	\$1,000,000	\$76.92 per sq. ft

Industrial Vacancy Rates-City of Santa Maria Metropolitan Area								
	2008	2009	2010	2011	2012	2013	2014	2015
Rates(%)	8.80	9.60	9.08	8.47	4.00	4.67	4.50	1.82

Source: Stafford-McCarty Commercial Real Estate

As noted in previous articles, Area 9, the extensive annexed area for future industrial growth, continues ongoing discussions of cost recovery and fees regarding funding of its infrastructure and development. Infrastructure fees discussed are potentially adding \$4.00 per sq. ft.

If you find it, industrial land is maintaining its value in the \$6.00 to \$8.00 per square foot range for 2 to 3 acre parcels. Parcels in Area 9 are on the lower end of the value scale due to the cost of delivering infrastructure to those sites. A parcel on 1.37 acre parcel on Tama Lane sold this year for \$365,000 (\$6.12 per sq. ft.)

Agricultural

Santa Maria is getting to be known as the “Strawberry Capital”. This designation is also corroborated by the price the land commands for sale as well as lease rates. Typically, leases for berry ground are ranging between \$2,400 and \$2,700 annually per acre. In comparison annual lease rates for vegetables are in the \$1,500 to \$1,900 per acre range.

When quality agricultural ground becomes available it rarely comes to market as it most often sells to the growers leasing the ranch. 2015 demonstrated this again with several properties changing hands and it only gets talked about after the sale.

Noted sales:

90.6 Acres	Santa Maria Row Crop	\$5,335,500	\$67,500/acre
330.94 Acres	Row crop and open land	\$14,300,00	\$54,750/acre rc portion

Food production continues to move under cover or indoors. As noted above, Windset Farms is adding to their vast greenhouse production as well as the expanding state of the art hoop hut production.

Vineyards are still a hot item. A Santa Rita Hills operation sold last year; the 33 acre planted vineyard portion was valued at approximately \$60,000 per acre. For the valley, the rule of thumb is a price range of approximately \$40,000 to \$60,000 per planted acre.

Other key agricultural issues will have a noticeable effect on real estate include:

Labor – Growers are taking on the burden of finding/providing housing to ensure there is enough labor to pick their crops and

Water – Many water tables have dropped and farmers are drilling their wells deeper to reach them – at considerable cost. Those parcels that have access to sufficient water in these lower water years are commanding the best prices.

Commercial Investment

Commercial investments are active with many buyers coming from outside of the immediate area. These Buyers are often selling other properties and need tax deferred exchanges to protect their gains from their previous sale.

Noted transactions:

Acorn Plaza	59,747 sq. ft.	\$9,250,000	7.2 cap shopping center
Town Center West	61,803 sq. ft.	\$8,400,000	7.3 cap shopping center
Fairsky Skyway	19,994 sq. ft.	\$1,700,000	6.9 cap multi-tenant industrial
1201 East Main St.	5000 sq. ft.	\$2,000,000	6.5 cap retail strip center

The current cap rate target is approximately a 7 cap. But properties can be hard to find and key issues are finding investments with solid tenants, a good location and quality construction.

Capitalization Rates-City of Santa Maria Metropolitan Area					
	2011	2012	2013	2014	2015
Cap Rate Ranges	7.0-9.5	6.5-8.0	5.3-7.0	5.0-7.0	5.0-7.0
Corresponding Valuation* (Millions of \$)	1.42-1.05	1.53-1.25	1.89-1.43	2.00-1.43	2.0-1.43

Source: Stafford-McCarty Commercial Real Estate

*Value based upon \$100,000 annual net operating income

Summary

The index for determining a good value has been determining if it is selling below reproduction costs. We are starting to see the shift in that model in both the retail and industrial sectors. New retail projects with committed tenants are moving through planning and industrial users are looking at build to suits in order to meet their needs based on lack of available inventory. This new construction will result in higher purchase prices and higher rental costs. Growth is invigorating as projects come out the ground and these retail projects will have a major impact on the growth and traffic patterns of Santa Maria for years to come.

Notes:

For the purpose of this report, databank numbers include functional, non-competitive inventory (older buildings and warehouses) and excludes non-market square footage such as mini-storage, airport hangers, etc.

A Cap Rate (Capitalization Rate) is calculated by dividing the annual net operating income (NOI—which does not include debt service) by the purchase price, e.g. \$100,000 NOI/ \$1,500,000 purchase price equals .0667 or a 6.67 cap rate.