

## North Santa Barbara County Commercial Real Estate

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### Key Points

- New retail developments push vacancies upward.
- Industrial availability still remains at all-time lows.
- Investment buyers are active.

## An Active Real Estate Market Across all Market Sectors

The trend of increasing numbers of transactions across sectors continues, but with some new twists as outlined in the following sections:

### Residential

Housing sales over the last several years in Santa Maria are hovering at just over a 1,000 units annually with modest increases in value year over year. 2017 saw a slight decrease in unit sales (1,049 for 2017 versus 1,117 in 2016) but median prices rose by \$11,000. The median 3 bedroom, two bath home of approximately 1,626 sq. ft. is now \$375,000 which is an approximately 3% increase in median value and equates to \$231 per sq. ft. Housing production is active again with noticeable “sticks in the air” as you drive through the community.

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#### Single Family Detached Unit Sales: Santa Maria and Orcutt

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	2012	2013	2014	2015	2016	2017
Number of Single Family Sales	1,176	1,004	947	1,033	1,117	1,049
Number of Single Family Sales REO*	702	307	97	84	56	11
Percentage of Total Sales REO (%)	59.69	30.58	10.24	8.13	5.01	1.05
Median Price (\$)	227,000	278,900	320,000	335,000	364,000	375,000
Median Cost Per Square Foot (\$)	140	168	195	204	222	231

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

\*2012 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**

The retail section of the Enos Ranch project is nearing completion. Most of the tenants are familiar names, but are new to the Santa Maria retail market. The one large exception is Costco moving down the street from its former location. While this has not created a large number of vacancies due to area tenants relocating, it has shifted the epicenter of retail to the Betteravia/101 area.

The North Broadway corridor has seen some growth with new building and tenants in the area of the Vallarta market. There are plans in the works for another hotel.

Retail vacancy has doubled. Approximately half of the vacancy is the former Costco. The vacant retail inventory is standing at approximately 243,160 sq. ft. out of a base retail inventory of approximately 4,574,300 sq. ft. With the build out of Enos Ranch, it will be a “wait and see” how much this effects the demand, and rents for other retail locations.

Available year-end 2017 commercial/retail space evinces a 5.32% vacancy factor at year-end compared to the nearly negligible 2.61% in 2016. To keep things in perspective this is still relatively low number.

Given the above, there are still other proposed retail centers on the books:

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

Older, small freestanding buildings in tertiary locations have sold for over \$180 per sq. ft. Retail land on North Broadway, less than an acre in size, has sold for over \$18.00 per sq. ft.

Retail Vacancy Rates-City of Santa Maria Metropolitan Area								
	2010	2011	2012	2013	2014	2015	2016	2017
Rates(%)	10.62	9.98	6.83	3.78	3.40	3.56	2.61	5.32

*Source: Stafford-McCarty Commercial Real Estate*

**Office**

The vacancy rate has grown again, creeping up this year to 12.53% up from 10.94%.

To say the office market continues to plod along is an apt description as office vacancy continues to remain in the 11-12% vacancy range without any significant inventory added this last year. That being said, significant inventory will be added when CoastHills Federal Credit Union completes their approximately 85,000 sq. ft. Class A headquarters—presently under construction. They are placing approximately a third, 30,450 sq. ft., back into the market.

The office component of the market at year-end 2017 has a base inventory of approximately 1,200,000 sq. ft. with just under 151,539 sq. ft. vacant. Construction costs and fees are continuing to rise, yet rents have stayed relatively stable. However, there exists a wide range of rental office rents from \$1.15 sq. ft. mo/gross to \$2.35 mo/NNN

**Office Vacancy Rates-City of Santa Maria Metropolitan Area**

	2010	2011	2012	2013	2014	2015	2016	2017
Rates(%)	16.70	22.37	17.03	16.61	10.90	10.61	10.94	12.53

Source: Stafford-McCarty Commercial Real Estate

**Industrial**

There has been a more active market for industrial transactions than in recent years. Even though the available inventory is still low and vacancy sits at 1.91 %, buildings are still selling below reproduction value.

This market segment has been incredibly tight for more than three years, yet some very functional, larger buildings of 26,000 and 50,000 sq. ft. have been on the market for some time now. 5,000-20,000 sq. ft. buildings with supporting enclosed yard areas have been a continuing need in this market. Presently the base inventory is approximately 8,397,600 sq. ft.

Flex space industrial asking rental rates from 1,500 sq. ft. units and larger remain in the \$0.50 to \$0 .65 sq. ft. gross range. Second or third generation space rents are typically \$0.50 to \$0.70 modified gross. For newer space industrial rates, owners are asking \$0.75 sq. ft./mo NNN.

**Noted sales:**

Buildings:

1445 Jason Way	\$1,625,000	13,400 sq. ft.	\$121 sq. ft.
3030 Skyway Dr.	\$1,450,000	11,500sq. ft.	\$126 sq. ft.
1293 Stowell	\$2,200,000	21,000 sq. ft.	\$105 sq. ft.
2811 Airpark	\$6,550,000	35,290 sq. ft.	\$186 sq. ft.

Industrial Land:

2175 A St/Berry Ln.	\$550,000	2 acres	\$6.31 sq. ft.
3200 Skyway Dr.	\$430,000	1.35 acres	\$7.31 sq. ft.

**Industrial Vacancy Rates-City of Santa Maria Metropolitan Area**

	2010	2011	2012	2013	2014	2015	2016	2017
Rates(%)	9.08	8.47	4.00	4.67	4.50	1.82	1.47	1.91

Source: Stafford-McCarty Commercial Real Estate

2 - 3 acre parcels of Industrial land are selling in the \$6.00 to \$8.00 per square foot range. This land value has been holding steady for several years.

Windset Farms has continued to acquire land adjacent to its large green house production and is the largest single owner in the 900 plus acre Area 9 industrial area —a land area which was designated to accommodate future industrial/commercial development. It has been years now, and any formal program for establishing infrastructure costs and responsibility has not established. There still remains multiple larger parcels available and this is a concern regarding their subdivision and cost sharing.

**Agricultural**

The largest North County transaction, at \$164,528,000, was a transaction with the Nature Conservancy for the 24,000 acre Colo-Jalama property Funds were donated by a private investor to protect this reported 76 mile stretch of coastline.

Gainey Vineyards sells approximately 1227 acres to the Wine Group, LLC for \$34,250,000 and interestingly, none of this was planted vineyard; however plantable ground with suitable water was estimated at approximately 1,030 acres supporting an approximate \$34,000 per acre plantable valuation.

A difficult year for strawberry growers with sales being down, yet demand for agricultural production ground, especially organic ground, is strong. Organic ground annual rents can be \$2,800 an acre.

Still a hot local topic are guest worker issues. Housing units for the H2A program has effused throughout the community and are no longer just concentrated in older Broadway motels. With a need for field workers and a lack of supply, operators are continuing to rely on the H2A program to fill a significant portion of their labor pool. A number of organizations are contemplating purchasing, or building, relatively large complexes to provide needed accommodations and control the housing costs. However, the political rhetoric in Washington is causing some decision makers to hesitate in case there is a sudden shift in program regulations.

Currently there are several smaller ranches, under 100 acres, on the market. Generally, row crop and berry ground remains in the \$55,000 to \$65,000 an acre range.

Although there was heavy rain in 2017, 2018 has become worrisome. Commercial real estate is affected by resources and the drought has been a major cause of concern for agriculture and continued development. Agricultural operators continue to experiment and refine both automated picking as well as bring crops under cover, usually hoops. Other effects of climate change include more temperate winters allowing some operations to grow crops through the winter. If this temperature trend continues it could have a ripple effect on crop locations as growers may not need to shift growing operations to as many locations to fulfill year-round contracts.

**Commercial Investment**

There is confidence in apartment acquisitions. Apartment sales -- more than 37 transactions (Lompoc and Santa Maria) this year--have surpassed any other commercial transaction type in the North County. These transactions range from several hundred thousand to the largest apartment sale, 401 Pine Ave., occurring in Lompoc (see below) Apartment buyers range from small investors to large equity groups.

Following are some noted investment transactions by market type demonstrating the range in capitalization rates:

**Older Shopping Centers Retail Units:**

1523 South Broadway	\$1,800,000	13,500 sq. ft	7.47 Cap.
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**Industrial:**

1440 Jason Way	\$2,878,000	31,350sq. ft.	6.5 Cap
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**Apartments:**

401 Pine, Lompoc	\$29,000,000	204 units, \$142,157 per unit	5 Cap
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As a current rule of thumb, investment properties are selling in the range of 6 to 7 caps. Smaller, higher quality properties –and apartments--are in the 5's. Higher returns for investors are hard to find in the Central Coast area.

Capitalization Rates-City of Santa Maria Metropolitan Area					
	2013	2014	2015	2016	2017
Cap Rate Ranges	5.3-7.0	5.0-7.0	5.0-7.0	5.0-7.0	5.0-7.0
Corresponding Valuation* (Millions of \$)	1.89-1.43	2.00-1.43	2.00-1.43	2.00-1.43	2.00-1.43

Source: *Stafford-McCarty Commercial Real Estate*

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

### Summary

2018 seems to be a year for sorting out. Projects are moving forward and certainly in the retail market, things are shifting. The berry industry has become such a big part of the Santa Maria Valley, any significant impact will filter into other supporting and ancillary markets as did the shift in the oil and gas supporting segments years ago when that market changed. Water issues will be a driving concern, effecting more than just agricultural providers. However, confidence is still high and that has always been a key driver for North County.

#### 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.