SANTA BARBARA NEWS-PRESS

Second-quarter leasing activity remains active

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A local commercial real estate company, while seeing some signs of improvement in the retail segment, said demand in all asset classes -- office, industrial and retail spaces -- will continue to lag through 2010. Pacifica Commercial Realty, in its mid-year review for 2010, said halfway through the year the South Coast commercial real market feels "static."

"There has not been much change since the beginning of the year in terms of deal flow in either the investment or tenant markets," according to the market report. "For every property that leases, another one seems to become available.

"The same (trend) seems to apply to the sales market."

While there has been an uptick recently in county sales and hotel tax revenue, good indicators of a tourism sector at least on the mend, Pacifica's top exec said the industry will be humming when employment comes roaring back by companies moving to the South Coast or tenants expanding existing operations, especially the technology sector.

"We need job creation to underpin a sustainable recovery," said Mark Mattingly, broker and executive vice president for Pacifica. "This is what ultimately will fill the business parks and the unoccupied retail and office spaces (for lease along State Street)."

As an example of a vote of confidence looking toward the future, he pointed to the February 2010 purchase by FLIR Systems Inc. of two buildings in Goleta for a reported $29 million, one of the biggest owner/occupied transactions on the South Coast.

Sale of the two buildings in the expanding Cabrillo Business Park will enable FLIR to support local operations in the manufacture of infra-red devices used in vision systems in cars, boats and planes. According to a company official, the local division has been growing operations 15-20 percent annually.

FLIR's current workforce of 310 employees had been spread among four different leased locations in the Santa Barbara-Goleta area.

Another noteworthy deal was the investor purchase of 900 State St. (Borders Books) at $9.8 million. Rabobank sold its building at 33 E. Carrillo St. to an investor for nearly $6.1 million and then leased it back.

Despite the numerous "for lease" signs seen around the Santa Barbara office market, leasing activity remained fairly active in the second quarter. The vacancy rate for the market fell from 4.2 percent to 4.1

percent as several leases on smaller spaces were signed.

The most notable activity in the market, however, was news that Santa Barbara Bank & Trust decided not to vacate its former headquarters at 1021 Anacapa St. This removed roughly 30,000 square feet of space that was brought to the market early in the quarter.

The vacancy rate in the Goleta area, the region's high-tech hub, continued to rise in the second quarter with a 14.1 percent vacancy rate, which is a five-year high for the market, said the report.

With no leases and the addition of six new spaces in the market, the second-quarter vacancy rate in Carpinteria reached 9 percent. This is up slightly from the first quarter vacancy rate of 7.7 percent. Until this year, the single-largest tenant leasing office space in Carpinteria has been fast-growing Lynda.com, which now occupies roughly 55,000 square feet of office space.

Significant retail leasing activity occurred during the first two quarters in downtown Santa Barbara. Several existing properties found tenants and one building at 3763 State St. was demolished to make way for more parking at Whole Foods Market.

Among the major leases was Tilly's at 917 State St.; G By GUESS at 820 State St.; and Reid's Appliance at 409 Anacapa St. Developers are still working to obtain permits for BevMo at 3042 State St.

Currently, there are 24 available retail properties on State Street, between the beach and 1400 block. This is a relatively high number of spaces; however, the total square footage of approximately 101,600 square feet is below the estimated 128,000 square feet available at the same period last year.

This represents a vacancy rate of approximately 7.8 percent based on the 1.3 million square feet base for the State Street retail area, said the report.

Mr. Mattingly says he's optimistic about the South Coast's future despite the challenging economic environment the region is facing. Building owners are not looking at the losses that larger -- and more overbuilt markets -- are facing. "They're taking some big hits" in places like Los Angeles and San Diego, he said.

Locally, "tenants are going to bargain hard for lower rates and better deals," said Mr. Mattingly.

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