



## **Santa Maria Commercial/Industrial Real Estate Market Update**

*Fourth Quarter, 2017*

**By: Pacifica Commercial Realty**

### **General Update**

Market activity has continued to increase. New Commercial/Industrial projects have broken ground throughout the City (and in the Orcutt Area). Residential Sales appear to be consistent and demand for new homes is supporting what can be described as very active residential construction (specifically in the multifamily/apartment sector).

**Market Values:** Rental rates have remained steady and it appears they will remain consistent throughout first quarter of 2018. Capitalization Rates for quality investment properties in the Santa Maria Valley are hovering in the 5% to 6% range. Many tenants (across all market sectors) are renegotiating their leases with landlords in an effort to establish longer-term tenancies based upon previously suppressed lease rates.

**Lease Rates:** Within the last 18 months, overall market values have experienced reasonable adjustments. Industrial lease transactions are generally found in the \$.50 nnn to \$.85 nnn range, with lower rates in older Northwest Sector properties and higher rates (generally) in the Southwest Sector. Retail rents are found in the \$1.55 nnn (in addition to Base Rent per square foot, tenants pay landlord's monthly Operating Expenses) to \$3.00 nnn per square foot per month range. Retail Rents at the higher end of the range are found in the Enos Ranch Development. Office rents have been the least affected by increased market variables and remain in the \$1.00 nnn to \$1.75 nnn range (with the exception of Medical Office Rents, which are generally higher due to increased parking requirements and heavy utility needs within the space).

**Sale Prices:** We have seen significant increases in the sale prices of Industrial buildings over the last couple of years. We are once again nearing the 'top of the market' (2007) Buildings Sale prices once found in the City of Santa Maria. Some of the highest recent Industrial Sale Comparables are found in the \$140 to \$175 per square foot range. Most of the higher priced sales were either smaller, owner-occupied buildings (3,000 sf to 10,000 sf) in the Southwest Sector, or properties sold to existing tenants in the respective properties. Retail/Office buildings are trading in the \$220 to \$250 square foot range (with several exceptions due to specific high-demand locations). Industrial Land Sale comparables (that can be found as there are so few sites available) are generally found at \$6 to \$10/sf range (subject to size and location). Retail/Office Land Sale comparables are found in the \$14 to \$25 per sf range with most lower end comps in



'secondary' locations (off highly traveled streets). In general, overall Commercial/Industrial sale prices are on an increasing trend.

## **Significant Market-wide Events & Developments**

**Area 9:** The addition of approximately 900 acres of industrial land into the City of Santa Maria by annexation of parcels bordered by Betteravia, Black, and Stowell Roads (Area 9) was initially thought to be long-term growth for Santa Maria's Industrial Base. However, Windset Farm's large scale Hydroponic Greenhouse operation acquired most of the annexed land and is operating several million square feet of greenhouse/growing/processing facilities on Black Road. The long-awaited Northern Santa Barbara County Jail has broken ground just outside the boundaries of Area 9. This +/-50 acre detainment facility will house inmates and provide much needed relief to the overcrowded conditions at the current Santa Barbara County Jail facility in Goleta (not to mention increased Law Enforcement jobs).

**Betteravia Plaza:** Approximately 57 acres of land, which was part of the Santa Barbara Research Center/Hughes Aircraft Company was being processed for subdivision into +/-30 industrial parcels. However, lack of demand by industrial users at the time prompted a 'rethinking' of the property's future. Bordered by two of the most highly traveled thoroughfares in the Southwest Sector (Betteravia & S. Blosser/Skyway Drive), this future subdivision was re-zoned through a General Plan Amendment and will be home to significant Retail/Commercial services, Commercial Professional Offices, and Multi-family units for the Southwest Sector. The Final Tract Map is pending and prospects for all three zoning categories are in lease/purchase discussions with Developers.

**Enos Ranch:** The last sizable retail development with highway visibility in the city limits of Santa Maria became a reality in 2017. The long-awaited Enos-Buss Site was transformed into Enos Ranch. This +/-111 acre site bordered by S. Bradley, Betteravia, College, and Battles roads is home to new users that include 'Costco', 'Lowe's', 'Dick's Sporting Goods' (& a host of smaller retailers), along with +/-13 acres of new automobile dealerships and 317 multi-family units. Costco just opened, Lowe's is soon to follow, Dicks Sporting Goods is under construction, and the new 85,000 square foot Coast Hills Credit Union Corporate Office has just broken ground. 'Chik-fil-A' and 'Buffalo Wild Wings' are also nearing completion. Across the street, 'Popeye's Chicken' opened with such fanfare that law enforcement was needed to control traffic on East Betteravia for three days and nights. Similarly, 'Black Bear Diner' opened at the corner of East Betteravia and Miller. That unit set chain-wide records for Daily, Weekly, and Monthly Sales over those respective periods.

**Federal Express Ground Transportation Facility:** Fed Ex's new 170,000 square foot Ground Transportation facility is under construction in the 1500 Block of Fairway Drive. Although Environmental Mitigation added +/- \$1.4m in costs (due to discovery of Protected Species), construction is once again underway. This facility will further add to Santa Maria's stable industrial employment base.



**Ag/Industrial:** Santa Maria’s agricultural employment base continues to thrive throughout the general economic downturn. Included in the agricultural segment are numerous Wineries, Wine Processing/Storage/Bottling facilities and Processing/Cooling/Packaging operations (Linneage, Seaside Packaging, Gold Coast Packaging, Brothers Best Produce/Agro-Jal, Maxco Packaging).

**Airpark Commercial Center:** In 2017, NKT Enterprises out of San Luis Obispo purchased 2811 Airpark Drive (former Santa Maria Energy & Café FX offices). This 36,000 square foot Office Building was leased to Mind Body of San Luis Obispo and DCCA, a VAFB Services Contractor. NKT was successful in getting two new +/-25,000, two-story office buildings approved. One of which is under construction. Mind Body and DCCA are being moved into the new building. The 2811 building is the new Corporate Office for Apio Produce. There is one Building Pad/Parcel in the project with Approved Plans being marketed ‘For Sale’.

## **INDUSTRIAL SECTOR**

Our database shows that the Santa Maria Industrial Market is comprised of approximately 8,650,000 square feet of buildings (both vacant and occupied). This total includes all existing buildings and substantially completed new construction in the Industrial (M1, M2, and CM) zoning areas (excluding mini-storage).

A recent survey shows a total current vacancy in the Industrial Market of +/- 170,000 square feet. The overall vacancy factor in our Industrial Sector now stands at +/- 2% percent. Most of the vacancy factor throughout the market can be found in just a couple of larger freestanding buildings in the range of 18,000 to 50,000 square feet. Most multi-tenant industrial parks with smaller unit sizes (less than 1,500 square feet) have experienced increasing demand from smaller firms looking to either start up in Santa Maria or expand from other regional locations. Similarly, demand for medium sized units (3,000 to 6,000 sf) has increased over the prior 12 months.

As discussed in prior Industrial Market Profiles, the Santa Maria Industrial Market is segmented into four main Areas:

<b><u>Area</u></b>	<b><u>Major Streets</u></b>
Southwest	Skyway/Betteravia
Northwest	Blosser/W. Stowell/Main
East	E. Stowell/E. Boone
North	Roemer/Preisker/Carlotti



**Industrial Land:** There are still relatively few parcels of industrial land available for sale in the Santa Maria Valley. Those available are listed for sale in the \$6.00 to \$10.00 per square foot range. Most of the vacant parcels of land that were being processed with development plans or for build-to-suit opportunities saw little or no activity during the downturn. When our Industrial market vacancy dipped below 5%, we started to see the return of some speculative construction. However, most new construction remains owner-user.

### **Santa Maria Office Sector**

The Office component of Santa Maria's commercial real estate market is comprised of approximately 1 million square feet, both occupied and vacant.

For the purpose of tracking information, observing trends, and maintaining statistics, we have demised Santa Maria's Office real estate market into four Sectors within the City Limits (Southwest Sector, Southeast Sector, Northwest Sector, & Northeast Sector). For the purpose of establishing geographic boundaries, the Sectors are demised by the Broadway/Highway 135 (running North & South) and Stowell Road (running East & West). For the purpose of this study, office properties owned and occupied by governmental agencies are not included in our Office Sector Base.

**Vacancy Factor:** It is believed that our Vacancy Factor in the Office Market (contained in all three product types) is less than 3.5%. This low vacancy factor represent a considerable advantage to Building Owners with respect to market lease rates ("Landlord Market") and potentially higher lease rates being paid by tenants (especially those with specific criteria/amenities in their Site Searches.

**Office Space/Product Types:** There are two general types of Office Space within the City of Santa Maria: General/Professional Office Space, and Medical Office Space. The product types for each vary greatly based upon location, age, and tenancies.

**General/Professional Office** - The majority of Santa Maria's Office Market could be described at either General Office Space or Professional Office Space. The 'Use' of the building is the determining factor between 'Professional Office' or 'General Office'. In many cases, there is a subjective line between the two categories of office space users, and some multi-tenant properties contain both General and Professional Office users. Professional Office uses include: Accountants/CPAs, Lawyers, Architects, Engineers, Escrow & Title Offices, Real Estate Brokerages, Appraisers, Financial Advisors, and Insurance Agents. General Office uses include Corporate Offices, Non-Profit Agencies, Consultants, Service Providers, and Government Offices.



Santa Maria's Office Market consists of buildings that have been built using a wide range of construction methods. General Office space and Professional Office buildings are found throughout the City on both major arterials and secondary streets. Buildings in Santa Maria's General/Professional Office categories include a wide range of variables, including:

- Older construction, refurbished to current Building Codes
- Converted/Up-zoned structures (commercial, industrial, and/or residential)
- Single-story/Multi-story (1980-Current UBC; HVAC; Elevator served; ADA Compliant)
- 4/1000 Parking Ratio

Office Space/Buildings are dispersed throughout the City. Because the North end of the City Limits tends to be older Residential units & Commercial space, most of Santa Maria's General and/or Professional Office Space is found along the Main Street corridor south to the Community of Orcutt along South Broadway. Santa Maria's Office Base consists of newer & older structures, single-tenant & multi-tenant buildings, and single story or multi-story structures. Similar to MOB's, building trends and the general age of Office Space/Buildings often determines the type of construction used when they were built. Most of the older structures are made of wood/stucco, while the newer structures are made of either concrete tilt-up panels or steel frame/stucco. The City of Santa Maria requires General and Professional Office Space/Buildings to meet a Parking Ratio of 4 parking spaces per 1000 square feet of building area. General/Professional Office Space is generally found in the CPO (Commercial Professional Office) Zoning, C2 (Commercial/Retail) Zoning, or PF (Public Facilities) Zoning.

**Medical Office Buildings ("MOBs")** -A significant majority of the Medical Office Space is within close proximity to Dignity Hospital. However, there are multiple medical 'submarkets' in the City wherein medical office uses/Medical Office Buildings ("MOBs") are clustered. Santa Maria MOB's are constructed from various building materials (often determined by age/trends) and in a wide range of sizes. City Zoning Ordinance requires MOB's to meet a Parking Ratio of 6 spaces per 1000 sf of building area.

Within the City of Santa Maria, there are several geographic areas where a higher concentration of MOB's are found, including:

- Dignity Hospital Area (includes Palisade Drive, Cypress, & Stratford)
- Broadway Corridor (and one-block side streets both north and south)
- Main Street Corridor (both East and West)
- East Stowell Road
- Betteravia Road/McCoy Lane (East and West)

**Significant transactions in Santa Maria's Office Sector for 2017 included:**



•HTA's (Healthcare Trust of America) purchase of the mutli-tenant medical office buildings located 116 S. Palisades and 525 E. Plaza Drive. The 525 building has a considerable amount

of vacant spaces (as has been the case for nearly three years), while the 116 building remains at or close to 100% occupancy (due to its proximity to Dignity Hospital).

•The former Heritage Oaks Bank building located in the Town Center West was purchased by a Physicians group and was remodeled to house several doctors (effectively the buyers).

•One pending transaction as of the publishing of this report includes the Central Coast Urgentcare's purchase of the 7,250 square foot shell building at McCoy and Depot Street. The Wisdom Center's new 9,000 square foot building in the same project is nearing completion, which will provide for Adult Day Care in the Santa Maria Valley. The last parcel in that project was sold to a group that will build a new home for Paragon Fitness. Ground Breaking for their building is schedule within the next month.

Vacant land that can be used for the construction of new Office product is also substantially below what is considered typical for most markets. There are very few ready-to-build parcels of land suitable for the construction of new Office Projects at this time. One larger project that just gained City Approval will provide for +/-30,000 square feet of Skilled Nursing Training facility on Plaza Drive across from HTA's 525 E. Plaza property. Ground breaking is scheduled for 1<sup>st</sup> Quarter 2018.

## **SUMMARY OF PROPERTY VALUES**

Sales and Lease values are summarized as follows:

### **INDUSTRIAL**

#### **Projected Building Sales:**

High-end space over 50,000 square feet	\$100.00-\$140.00/sf
High-end space 20,000 to 50,000 square feet	\$125.00-\$140.00/sf
High-end space under 20,000 square feet	\$130.00-\$150.00/sf
Lower-end space	\$85.00-\$110.00/sf

#### **Projected Lease Rates:**

High-end space over 50,000 square feet	\$0.60-\$0.75/sf NNN
High-end space 20,000 to 50,000 square feet	\$0.65-\$0.80/sf NNN
High-end space under 20,000 square feet	\$0.50-\$0.85/sf NNN
Lower-end space	\$0.60-\$0.70/sf Gross

#### **Projected Land Value:**

\$6.00 - \$10.00 per square foot



**RETAIL/OFFICE** (excludes leased investments & MOB's)

**Projected Building Sales:**

High-end space over 50,000 square feet	\$160 - \$180/sf
High-end space 20,000 to 50,000 square feet	\$180 - \$225/sf
High-end space under 20,000 square feet	\$200 - \$300/sf
Lower-end space	\$120 - \$135/sf
MOB's	\$150 - \$300/sf

**Projected Lease Rates:**

High-end space over 50,000 square feet	\$0.65-\$0.90/sf NNN
High-end space 20,000 to 50,000 square feet	\$0.75-\$1.50/sf NNN
High-end space under 20,000 square feet	\$1.90-\$3.00/sf NNN
Lower-end space	\$0.80-\$1.35/sf NNN
MOB's	\$1.50-\$2.10/sf NNN

**Projected Land Value:**

\$14.00 - \$25.00 per square foot

**Commentary**

The Commercial/Industrial Real Estate market of the Santa Maria Valley remains stable. Demand for existing facilities has been steady throughout the last twelve months with a mixture of prospects looking for facilities to lease and buy. Our very strong employment base of local and regional employers in both Medium Technology and Agricultural sectors remains our City's greatest asset.

**Summary Commentary**

- The supply of finished, Industrial zoned land has essentially been depleted . Most all of the parcels which were 1 to 5 acres have been sold. The Santa Maria Public Airport District appears to have commenced with the marketing of their industrial parcels south of the Airport.
- Investor interest in the Santa Maria market is steady and growing. Unfortunately, the availability of quality leased investments is limited.
- Demand for Retail services continues to be a very strong component of Santa Maria's economy.

We believe that Central Coast of California will continue to outpace the rest of the nation. Quality of life remains one of the strongest factors affecting demand. Affordability of housing



& labor, Santa Maria's pro-business/development climate, and our strong base of Ag related operations (including the Wine Industry) will retain Santa Maria's position as an economic leader in Santa Barbara County.