2017 HIGH DESERT MARKET WATCH

Coldwell Banker Commercial Victorville, California

Jason Lamoreaux
President / Broker

MARKET SNAPSHOT

Vacancy

Industrial: 6.6%
Office: 5.0%
Retail: 9.5%

Lease Rates PSF/PM

Industrial: $0.91
Office: $1.40
Retail: $1.06

Existing Space

Industrial: 19,274,000
Office: 5,786,000
Retail: 17,744,000

Is it a Boom? When is the Bust?

JASON LAMOREAUX | President, Coldwell Banker Commercial

Without question, the High Desert real estate market is in an expansion cycle, with both residential and commercial sectors experiencing new deliveries and appreciation. Does this translate into a Boom Market? Cautiously, Yes.

While real estate cycles are commonly referred to as Boom or Bust, Henry George, an American political economist, in 1876 made note of the four cycles by which real estate markets move; Recovery, Expansion, Abundance (now referred to as Hyper-supply), and Recession. An expansion market is commonly referred to as a Boom market that as history has proven time and time again, leads to Hyper-supply, or over building. Where is the High Desert in this cycle? In my opinion, conservative expansion with no indication of hyper-supply in the near future.

Commercial activity in the High Desert continues to increase with Retail and Industrial sectors expanding to meet new demand, with new starts materializing in the Office and Multi-Family sectors. Vacancy rates are declining in most sectors, with rental rates steadily increasing. Demand for investment properties is at the highest level since the great recession.

The residential market continues to experience gains with the median sales price increasing 9% year-over-year ending June 2017 at $235,000 for a single-family home. Inventory remains tight with only 1,152 homes on the market ending June 2017, representing only 2.2 months of inventory. New housing starts continue to increase as regional and national builders accelerate deliveries of new homes and neighborhoods.

With a vibrant real estate market providing steady gains and new construction starts, those who have experienced past cycles question the longevity and sustainability of our current expansion cycle. To project and anticipate market cycles, we must rely on trends and history, and hope we are not doomed to repeat prior mistakes.

A fundamental difference between the prior expansion cycle and our current real estate market is the availability of capital for small developers, and speculators. Without question, the ease of credit during the past expansion cycle fueled development, which resulted in significant overbuilding in our community, and across the nation. Today, access to capital for small developers and investors is difficult, and practically non-existent for inexperienced speculators. As a result, new housing starts in the High Desert for 2017 are projected to remain under 1,000 units, which represents approximately 17% of the volume of new housing starts in 2006.

Commercial development in the High Desert has also experienced a notable change from the prior

Market Update continued on page 39

IN THIS ISSUE

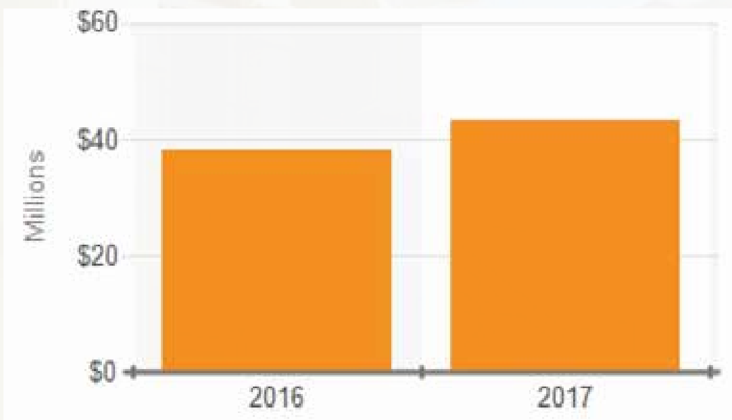
BUSINESS BRIEFS

Coldwell Banker Commercial Victorville, California

- $6,000,000 sale of four 12,000 SF industrial buildings were coordinated by Steven Thompson and Nick Di Cosola, representing both buyer and seller of the unique property located on Muskrat Road in Adelanto.
- The sale of a 20-acre residential parcel on Adelanto Rd in Adelanto was purchased for investment purposes and was represented by Bob Basen and Jerrad Schendel for a sales price of $70,000.
- Nick Di Cosola coordinated the 5 year "T-Mobile" lease at 12218 Apple Valley Rd, representing the landlord.
- Jerrad Schendel & Bob Basen recently represented the sale of an 8-unit Multi-Family property on Wato Road in Apple Valley, securing a sales price of $799,000.
- The lease of a retail space at 15550 Main St in Hesperia to a home builder, Vista Pacific Homes, was secured by Steven Thompson & Nick Di Cosola.
- Jason Lamoreaux negotiated the right-of-way sale of ±38.23 acres of vacant land on Lenwood Road in Barstow representing both the seller, a private land owner, and the buyer, California Department of Transportation.
- Bob Basen & Jerrad Schendel represented the seller of a 5-unit Multi-Family property situated on Carlisle St in Apple Valley with a final sales price of $405,000.
- Representing both the buyer and seller, Nick Di Cosola & Jason Lamoreaux procured a final sales price of $200,000 for 20 acres of vacant industrial land on Koala Rd in Adelanto.
- Steven Thompson secured the lease of 5,119 SF space on Mariposa Rd in Hesperia for "Faith Electric", they recently relocated from Adelanto. Thompson, represented both the landlord and the tenant.
- Bob Basen & Jerrad Schendel recently coordinated the sale of a multi-tenant office building located at 15400 Cholame Rd in Victorville securing a sales price of $1,200,000; representing both sides of the transaction.
- Bob Basen & Jerrad Schendel recently coordinated the sale of a 4 Unit Multi-Family property on Sago Rd in Apple Valley securing a sales price of $320,000.
- The 5-year lease of Dickey's BBQ Pit in the area of Jess Ranch Marketplace on Bear Valley Rd in Apple Valley was brokered by Nick Di Cosola, representing the landlord.
- A final sales price of $777,000 was secured by Steven Thompson for a 9,100 SF industrial building for investment purposes on Mesa Street in Hesperia, representing the seller.
- A $200,000 sales price was secured for 3.19 acres of vacant land on Apple Valley Rd with both buyer and seller representation by Jason Lamoreaux & Nick Di Cosola.
- Steven Thompson represented both parties for the lease of two suites at 15329 Palmdale Rd bringing new businesses to the center.
- Jerrad Schendel & Bob Basen represented both the buyer and seller of a large Multi-Family property on Maple St in Hesperia, securing a final sales price of $1,070,000.
- Bob Basen & Jerrad Schendel represented the buyer of a 4-unit Multi-Family property on Zuni Rd in Apple Valley selling at $326,500.
- Representing both the landlord and tenants, Steven Thompson leased three 770 SF office/retail spaces at 18838 Highway 18 in Apple Valley.
- Jason Lamoreaux represented both seller and buyer of a multi-tenant office building in the City of Industry at a sales price of $350,000.
- The 5-year lease of Yogurtland at 12218 Apple Valley Rd was brokered by Nick Di Cosola, representing both the landlord and tenant.
- Bob Basen & Jerrad Schendel represented the buyer of a ±10,000 SF multi-tenant industrial building on Tamarack Drive in Victorville at a sales price of $800,000.
- Representing both the tenant and the landlord, Steven Thompson secured a three year lease for a doctor located at 15475 Seneca in Victorville.
- Steven Thompson and Jason Lamoreaux represented both the landlord and tenant for the lease of a ±2,229 SF office space for Dr. Evan Halpern, an Endodontist on Wika Rd in Apple Valley.

MULTI-FAMILY

Sales Volume



Vacancy By Unit Mix

Cap Rate

Months to Sale

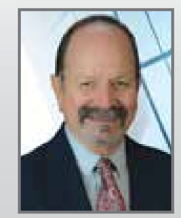
*All statistical data came from REIS Q2, CoStar report and County

Data provided by CoStar

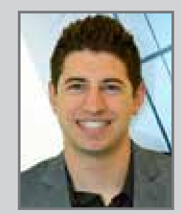
2017

Multi-Family Market Watch

Coldwell Banker Commercial Victorville, California



Bob Basen
Vice President



Jerrad Schendel
Senior Client Advisor

Vacancy

Vacancy rates trended downward through 2017.

Absorption

With minimal new deliveries absorption was slightly positive.

Price Per SF

PSF in 2017 continues to increase

Have We Hit the Ceiling?

Bob Basen

Apartment values upward trend that we have been experiencing since the bottom of the market continues to benefit. Apartment Investors, particularly here in the Victor Valley. Vacancy rates continue to decline followed by steady increase in rental rates which continues to generate enthusiastic interest in Apartment investments in the Victor Valley throughout the beginning of 2017. Sales volume is up and inventory of available properties is low.

Continued rate increase and increasing asset values is a sign of a healthy market, but for how long? Looking at the regional market in the Greater Inland Empire (San Bernardino and Riverside County), will give us a general indication as to what we can expect in the months and years ahead.

Currently the San Bernardino/Riverside County market is showing modest .8% rental growth in the first half of 2017 to an average mean of $1,275 and an average vacancy rate of 2.7%. These vacancy rates are the fifth lowest in the nation and the third lowest in the West. There are multiple reasons behind these numbers which includes the lack of construction of new affordable units, affordability of single family residences continuing to be out of the reach of middle income earners and of course a generational shift of millennials who are more likely to prefer smaller residences with less overhead and maintenance.

Why is this important to Inland Empire and more specifically Victor Valley investors and owners of multifamily apartments? In the entire Inland Empire, for every 100 units, about 3 of them are vacant on average. The Victor Valley almost mirrors that number at 3.5% vacancy rate through the first 6 months of the year, at historically low numbers. The scarcity of available units and the high cost of homes in the Inland Empire have led to many tenants moving “up the hill”, looking in the Victor Valley for affordability.

The results of this strong market are clear looking at 2017 sales volume which has surpassed 2016. Most of this increase in volume can be attributed to very astute value add investors purchasing properties based on projected growth, what rents could and should be and not on existing rents that are showing artificially low returns.

The vacancy by unit mix graph shows you that the overall vacancies have been on decline for the last 6 quarters and have recently started to level off to a healthy 3%. The result has been a modest .9% increase in rents in the first half of 2017. Rent growth could and should have been stronger but many long-term owners have not kept up with market rent increases. In this fast changing market, it is important to get your rents to market rate or as close to it as you can, this is healthy for not only your bottom line but for the overall value of your property.

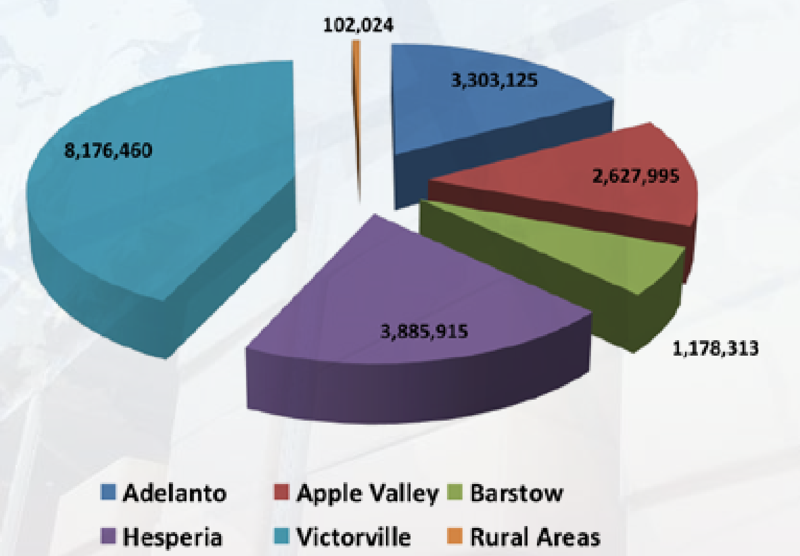
Here are some trends we are starting to see in the second half of 2017. Cap rates have creeped back up to 6.5% on average after flirting with the low 6's for much of the first and second quarter. Interest rates have started to increase but it looks like the Fed is going to hold off until the end of the year for any additional increases and the banks are starting to get a bit more conservative in their underwriting. All interesting subjects that can and will affect your bottom line and subjects that we will be following and reporting on in our end of the year report.

In closing, the High Desert communities continue to experience steady growth and the future continues to show positive predictions for the Multifamily sector throughout 2017.

INDUSTRIAL

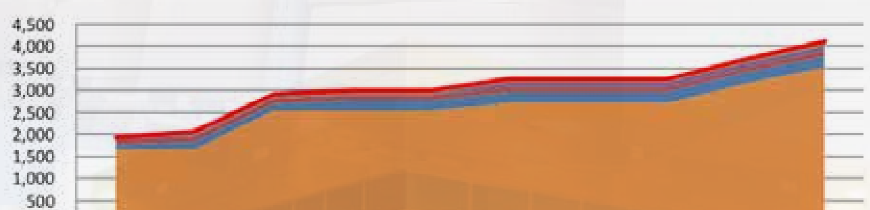
Industrial Inventory by City in the High Desert as of End of Q2-2017

Figure 1



High Desert Industrial Inventory by City from 2006 - Q2-2017

Figure 2

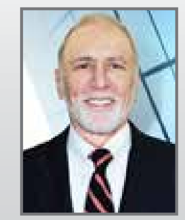


	2008	2009	2010	2011	2012	2013	2014	2015	2016	Q2-2017
Adelanto	20	72	72	72	72	72	72	72	72	92
Apple Valley	20	28	28	28	28	104	104	104	104	104
Barstow	118	118	118	118	118	118	118	118	118	118
Hesperia	111	169	169	244	244	252	252	252	252	262
Victorville	1,662	1,662	2,528	2,528	2,528	2,705	2,705	2,705	3,150	3,520
Unincorporated	1	1	1	1	1	1	1	1	1	1
High Desert	1,933	2,050	2,916	2,991	2,991	3,251	3,251	3,251	3,696	4,096

2017

Industrial Market Watch

Coldwell Banker Commercial Victorville, California



Ron Barbieri
Senior Vice President

Steven Thompson
Vice President

Vacancy

Vacancy rates were unchanged at 6.6%.

Absorption

Net absorption increased substantially, 383,000 SF first half of 2017.

Lease Rates

2nd Quarter of 2017, lease rates increased 15% over prior year.

CEQA Based Lawsuits to Delay New Development in the High Desert

Dr. Ronald J. Barbieri, Ph.D., MBA

The 1.35 million SF warehouse and distribution facility that Big Lots wants to build in the Town of Apple Valley has been delayed again because of new CEQA lawsuits. The primary purpose of such litigation is to enrich the attorneys and in some cases to force the creation of union jobs. Such lawsuits have nothing to do with protecting the environment. The delay of the Big Lot's distribution center has reduced the level of construction jobs as well as warehousing and distribution jobs that could have been created in the High Desert. Unfortunately, the use of CEQA to delay and in some cases, eliminate projects is expected to accelerate in California, which will retard and in some cases, prevent the growth of industrial development in the peripheral areas of Southern California like the High Desert.

In the City of Adelanto, one building for the cultivation of cannabis for medical use was delivered and others are under construction. In addition, the expansion of Warehousing, Distribution, and Manufacturing operations at Southern California Logistics Airport (SCLA) continued with the completion and occupancy of a 370,000 SF facility. Both factors have driven the additions to the industrial inventory and the absorption of industrial space in the four cities in Victor Valley.

The Inventory of Industrial Space

As of June 2017, there was 19,273,832 SF of space in 922 industrial buildings the High Desert. (**Figure 1**). The City of Victorville accounted for 42% of the total inventory, followed by Hesperia with 20%. Approximately 17% was in Adelanto, almost 14% was in the Town of Apple Valley and slightly more than 6% was in Barstow. Only ½ of 1% was in rural areas.

Figure 2 depicts the cumulative increase in the inventory of industrial space by geographical areas in the High Desert since the beginning of 2007. A total of 845,000 SF of industrial space was delivered over the last 3½ years, of which 96.4% was at SCLA in the City of Victorville. The City of Adelanto completed one 20,000 SF building, which represented 2.4% of the additions to the industrial space in the High Desert; As of the end of June 2017 there was another 42,700 SF under construction and more industrial projects in the planning stage. Almost all the industrial development in the City of Adelanto is for the cultivation of cannabis for medical purposes. One 9,995 SF industrial building was completed in Hesperia; There were no deliveries of industrial buildings in the cities of Apple Valley or Barstow; nor were there any projects under construction in both incorporated areas.

The 1.35 million SF warehouse and distribution facility that Big Lots prefers to build in the High Desert has been delayed because of another CEQA lawsuit. The primary purpose of such litigation in my opinion is to enrich the plaintiffs' attorneys and in few cases to create union jobs. CEQA lawsuits contribute little to the protection of the environment. They have become a vehicle for attorneys to extort money from users and developers who attempt to build new facilities in California. The delay of the Big Lot's distribution center has had a negative effect on the creation of construction jobs as well as warehousing and distribution jobs in the High Desert. When the facility building is operational it would add 500 Base Employment jobs and 500 Secondary Employment jobs in the High Desert. The delay also prevents the Town of Apple Valley from receiving development fees. Unfortunately, the use of CEQA to delay and in some cases, eliminate projects is expected to accelerate in California; and retard the growth of industrial development in the High Desert. It is time for the citizens and cities to take steps to curtail the use of CEQA to curtail economic growth.

Almost all new construction in the first half of 2017 was concentrated at Southern California Logistic Airport (SCLA) in Victorville. SCLA is an existing industrial park designed to accommodate 50 million SF of large manufacturing as well as warehousing and distribution facilities around the former George Air Force Base.

During the last five years, the only space constructed at SCLA was preleased to credit worthy industrial tenants.

Stirling, the development company for the Southern California Logistic Airport properties, has been reluctant to build industrial buildings unless they have a commitment from a user or tenant for a significant portion of the space.

Figure 3 summarizes the cumulative additions to the industrial stock in the High Desert by building size. During the 3½-year period ending with 2nd Quarter 2017, 814,783 SF or 96.4% was delivered in structures having 50,000 or more square feet of floor area. There were no deliveries of buildings between 25,000 and 49,999 SF; however, there was one 30,000 SF facility under construction. Buildings between 10,000 and 24,999 SF accounted for 20,000 SF or 2.4% of industrial space constructed. During the same period, only one 9,995 SF building or 1.2% of the delivered industrial space was in buildings with a floor area of less than 10,000 SF.

The development of large industrial buildings over the next decade is expected to be concentrated at SCLA, because the infrastructure is in place. However, the Town of Apple Valley is also expected to participate in large box industrial develop within its 5,500 acre industrial park in North Apple Valley, mostly around the existing 1,250,000 SF Walmart distribution center. Hopefully, the Big Lots 1,350,000 SF warehouse and distribution center will break ground on the adjacent property before the end of 2018. The completion of the proposed Crosstown Freeway (E-220), which would connect Victorville, The Town of Apple Valley and Adelanto with Palmdale, California, would provide access from the I-15 Freeway to the industrial parks in all three cities. The EIS/EIR has been approved for the E-220 freeway. A source of funds has been identified for the portion of the freeway in Los Angeles County. The politicians are looking for a funding source for the County of San Bernardino portion of the E-220. The City of Hesperia could also participate in the development of big box industrial buildings once industrial parks are developed near the I-15 freeways.

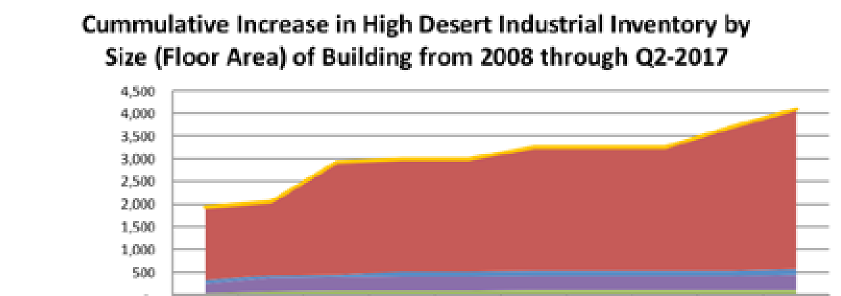
In the City of Adelanto, developers and users have been purchasing buildings and lots on which to renovate or develop buildings for the cultivation of cannabis for medical use. Construction has commenced on several smaller buildings and more construction starts are expected in the city before the end of 2017.

Net Absorption
A review of Figure 4 would reveal a Net Absorption of 816,588 SF from 2014 through the 1st Half of 2017. In 2014 the High Desert experienced a reduction in occupancy of (74,377) SF; whereas in the last 2½ years the occupancy of industrial space increased by 890,965 SF.

Figure 4 also breaks down the absorption by city as well as by year. During the last 3½ years, the Net Absorption of industrial space for each geographical area was as follows: Adelanto has a negative absorption of (127,942) SF; Most of this loss was due to the displacement of traditional industrial tenants to enable the space to be converted to cannabis cultivation facilities. The Net Absorption of 30,072 SF during the first six months of 2017 is beginning to reflect the impact of the cultivation of cannabis for medical purposes. This trend, which is expected to continue at least through 2018, would increase the demand for industrial space in adjacent cities. As the cultivation of Cannabis for medical use expands, there is expected to be a substantial increase in the Net Absorption of industrial space in the City of Adelanto.

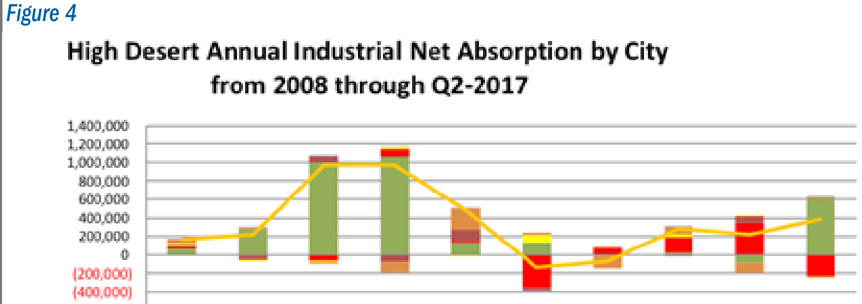
The Town of Apple Valley gained 38,453 in 3½ years ending in June 2017. Barstow experienced a net absorption of 42,828 SF during

Figure 3



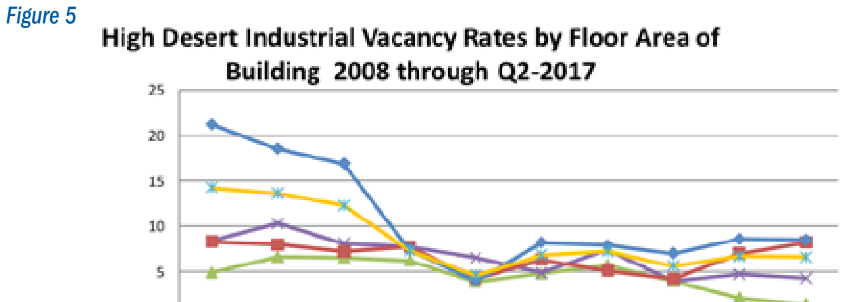
	2008	2009	2010	2011	2012	2013	2014	2015	2016	Q2-2017
50,000 SF And Over	1,625	1,625	2,475	2,475	2,475	2,727	2,727	2,727	3,172	3,542
25,000 - 49,999 SF	66	66	66	116	116	116	116	116	116	116
10,000 - 24,999 SF	207	300	300	316	316	316	316	316	316	336
1 to 9,999 SF	34	59	75	85	85	93	93	93	93	103
All Industrial	1,933	2,050	2,916	2,991	2,991	3,251	3,251	3,251	3,696	4,096

Figure 4



	2008	2009	2010	2011	2012	2013	2014	2015	2016	Q2-2017
Unincorporated	(3,731)	6,281	1,790	960	200	(300)	0	900	(160)	1,160
Adelanto	50,464	12,224	(12,178)	(116,855)	229,103	21,328	(139,342)	86,777	(105,419)	30,072
Apple Valley	15,907	(17,059)	(16,670)	20,715	(17,543)	83,393	3,600	35,773	2,749	(3,669)
Barstow	15,893	(45,150)	69,680	(74,454)	129,019	(21,440)	9,199	(21,872)	69,209	(13,708)
Hesperia	25,397	(18,007)	(72,870)	85,920	15,394	(360,148)	69,438	163,769	348,465	(231,939)
Victorville	63,480	282,128	1,000,745	1,060,179	130,166	132,915	(17,272)	22,217	(94,805)	601,446
High Desert	167,410	220,417	970,497	976,465	486,339	(144,252)	(74,377)	287,564	220,039	383,362

Figure 5



	2008	2009	2010	2011	2012	2013	2014	2015	2016	Q2-2017
1 to 9,999 SF	4.9	6.6	6.5	6.2	3.9	4.8	5.7	4	2.1	1.4
10,000 - 24,999 SF	8.4	10.3	8.1	7.7	6.5	4.9	7.4	4	4.7	4.3
25,000-49,999 SF	8.3	8	7.2	7.7	4.2	6.3	5.1	4.2	7	8.2
50,000 SF and Over	21.2	18.5	16.9	7.4	4	8.2	7.9	7	8.6	8.5
All Industrial	14.2	13.6	12.3	7.3	4.6	6.8	7.2	5.6	6.7	6.6

the same period. Hesperia experienced a substantial increase in occupancy of 349,733 SF since 2013 despite a negative absorption of (331,939) SF in the 1st half of 2017. The latter was primarily due to the relocation of two firms Newell Brands (Rubbermaid) and Plastipak from temporary space in the 488,817 SF Warehousing and distribution facility at 10200 Amargosa Road in Hesperia to the recently completed 370,000 SF building at SCLA, where Newell Brands occupies 195,508 Sf and Plastipak is the tenant in the remaining 174,515 SF. Victorville absorbed 511,526 SF of space during the 3½ years beginning with 2014; even though it experienced a decline in industrial demand in 2014 and 2016. The decrease in demand for industrial space in the High Desert in 2014 was more than offset by the substantial growth in demand during the last 2½ years.

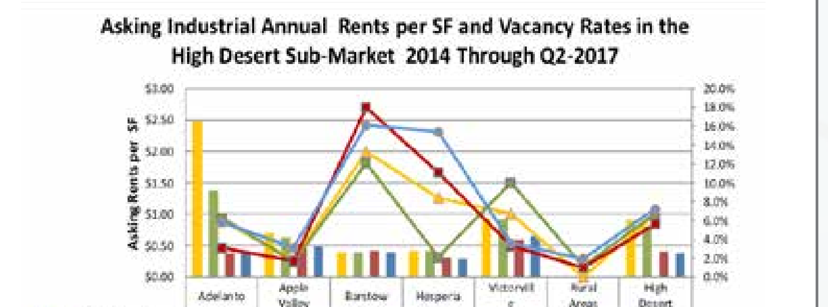
The demand for large box industrial space in the High Desert is likely to increase for the next couple of years. The Stirling Company is working with potential users and tenants to obtain commitments for the additional space the developer is planning at SCLA. Also, Big Lots may be willing to pay attorneys the ransom they require to allow the construction of a 1.35 million SF warehousing and distribution facility in the Apple Valley Industrial Park. The demand for industrial space in the City of Adelanto and the other cities in the Victor Valley is projected to increase substantially because of cultivation of cannabis for medical use in Adelanto. The City of Adelanto has proposed rezoning approximately 2,000 acres from mostly low density residential uses; to the same industrial zoning as the cannabis cultivation zoned parcels. Such zoning could also be used for manufacturing, warehousing and distribution operations.

Vacancy Levels and Vacancy Rates
The lower level of absorption during the last 3½ years is partially due to lack of demand; however, the fact some submarkets were supply constrained was also a contributing factor. This became more of a factor in the last six months, as evident from the low vacancy rates, which are summarized by size of building in **Figure 5** and by city in **Figure 6**.

There was 1,275,000 SF of vacant industrial space in the High Desert as of the end of the 1st Half of 2017. The vacancy rate for the High Desert increased from 5.6% at the end of 2015 to 6.6% by June 2017. Some of this increase was due to the delivery of 400,000 SF of space in during the first half of 2017. At the end of the 2nd Quarter 2017 the vacancy rate for buildings less than 10,000 SF was 1.4%; for buildings 10,000 to 24,999 SF the rate was 4.3% and for 25,000 to 49,999 SF the vacancy rate 8.2%. The vacancy rate for buildings with a floor area of 50,000 SF or more was 8.5%. However, some of the vacant space in the largest building category consists of truck terminal facilities for which there is limited demand in the High Desert. There is 102,000 SF of such space on Lenwood Road in Barstow and another 172,000 SF in one property in Adelanto. In addition, there is a substantial amount of vacant industrial space in Adelanto's cultivation zone that is being converted to cannabis cultivation facilities. Such space is technically vacant; but most of it is not available for immediate occupancy.

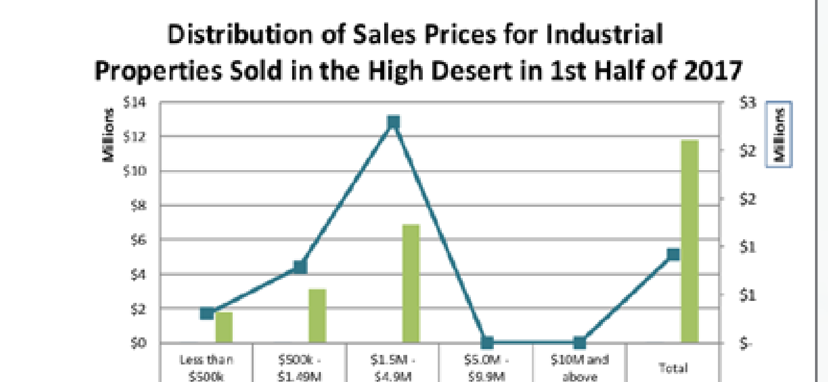
When adjustments are made for properties being converted to cannabis cultivation, for preleased space, for the buildings under construction and for the functionally obsolete truck terminals,

Figure 6



	Adelanto	Apple Valley	Barstow	Hesperia	Victorville	Rural Areas	High Desert
Q2-2017 Rent/SF	$2.49	$0.70	$0.40	$0.42	$0.93	$0.00	$0.91
2016 Rents/SF	$1.37	$0.63	$0.40	$0.42	$0.92	$0.00	$0.81
2015 Rents/SF	$0.38	$0.53	$0.42	$0.31	$0.59	$0.00	$0.41
2014 Rent/SF	$0.38	$0.48	$0.40	$0.29	$0.66	$0.00	$0.38
Q2-2017 Vacancy Rate	6.0%	1.8%	13.3%	8.4%	6.7%	0.0%	6.6%
2016 Vacancy Rate	6.3%	1.6%	12.1%	2.1%	10.0%	1.1%	6.7%
2015 Vacancy Rate	3.1%	1.7%	18.0%	11.1%	3.3%	1.0%	5.6%
2014 Vacancy Rate	5.8%	3.2%	16.1%	15.4%	3.8%	1.9%	7.2%

Figure 7



	Less than $500k	$500k - $1.49M	$1.5M - $4.9M	$5.0M - $9.9M	$10M and above	Total
No. of Transactions	6	4	3	0	0	13
Dollar Volume	$1,785,500	$3,135,000	$6,875,000	$-	$-	$11,796,500
Avg. Sales Price	$297,583	$783,750	$2,291,667	$-	$-	$907,346

there is very little space available for lease or purchase by traditional industrial users in the High Desert. Our Industrial team at CBC is working with clients that have small to large space requirements that cannot be accommodated in the existing buildings in the High Desert. Consequently, the lack of supply has been limiting the absorption of industrial space in the first half of 2017.

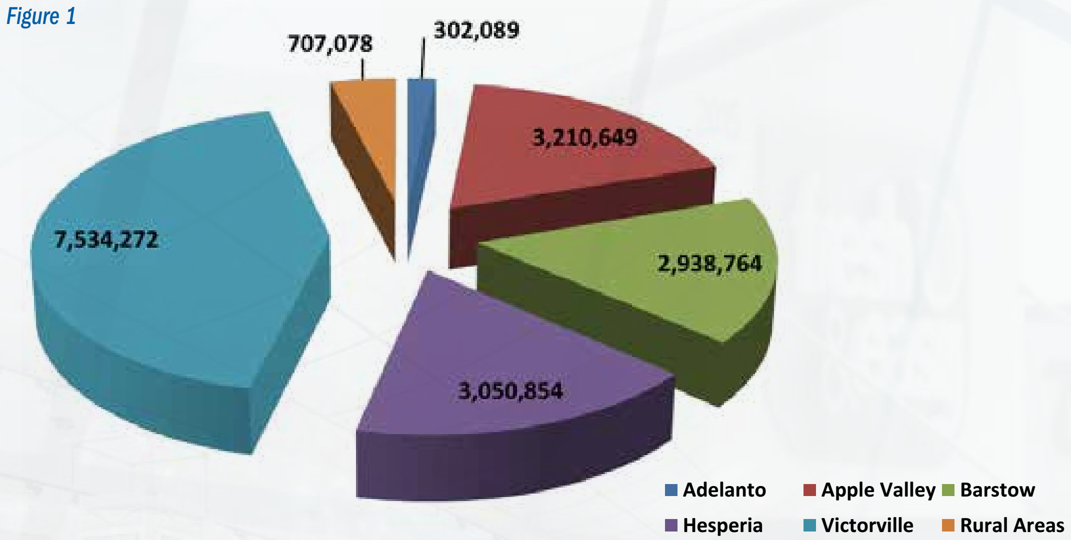
Rents and Vacancy Rates
Figure 6 summarizes the vacancy rates and rent levels for individual cities in the High Desert. Over the last 3½ years, the vacancy rate for the City of Victorville increased to 6.7%; The real vacancy level is closer to 3%; and the vacancy rate for the industrial space at SCLA is less than 2.0%. The vacancy rate for the Town of Apple Valley decreased to 1.8%, which is extremely low. The rate in the City of Adelanto increased to 6.0% at the end of June 2017. Much of the added vacancy is due to buildings being withheld from the market while they are being converted to cannabis cultivation facilities. A former truck terminal which is not enclosed has also added to the vacancy. There is virtually no vacant space in the City of Adelanto that could accommodate traditional industrial tenants. The vacancy rate for the City of Hesperia increased to 8.4% in the 1st half of 2017; however, 257,000 SF of Vacant space (6.6%) is in one large industrial building at 10200 Amargosa Road. If that is excluded, the vacancy rate would only be 1.8%. Barstow had a 13.3% vacancy rate as of the 2nd Quarter 2017; but much of it is in the former Yellow Freight cross-dock facility. The total vacancy in Barstow is 156,000 SF of which 113,000 SF is directly related to the former truck terminal. The remaining 43,000 SF of vacant space is in a few buildings. If you exclude the former Yellow Freight facility the vacancy rate in the balance of the industrial inventory is

Industrial Report cont. on page 39

RETAIL

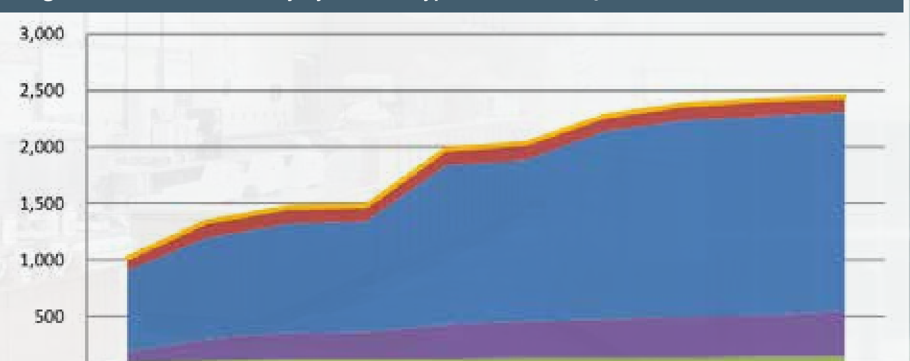
Retail Inventory by City in the High Desert - 2nd Quarter 2017

Figure 1



High Desert Retail Inventory by Product Type 2007 - 2nd Quarter 2017

Figure 2



	2008	2009	2010	2011	2012	2013	2014	2015	2016	Q2-2017
Neighborhood Centers	108	140	140	140	140	140	140	140	147	147
Power Centers to Malls	712	892	965	980	1,410	1,433	1,665	1,734	1,760	1,765
General Retail	101	198	231	241	306	324	341	368	376	405
Strip Centers	86	103	120	120	120	132	132	132	135	135
All Retail Product Types	1,008	1,334	1,457	1,481	1,975	2,028	2,277	2,373	2,417	2,443

2017

Retail Market Watch

Coldwell Banker Commercial Victorville, California

Nick Di Cosola
Senior Vice President

Steven Thompson
Vice President

Vacancy

Vacancy Rate decreased slightly to 9.5% at the end of the 1st half of 2017.

Absorption

Decrease of absorption to 49,000 SF.

Lease Rates

Lease Rates of $1.06 PSF was essentially unchanged from the prior year 2016.

Two trends will continue to alter the location, type and amount of Retail floor area in the High Desert

Dr. Ronald J. Barbieri, Ph.D., MBA

The first (trend) was changes in the distribution of per capita income and wealth coupled with the increase in Federal and California mandated expenditures including income, property and sales taxes, higher energy costs and fees for government services, which have significantly reduced both Disposable Household Income and Discretionary Income for the wage and salary workers in the Inland Empire and the High Desert. This has resulted in a substantial shift in consumption patterns and the retail firms that deliver goods and services in the region. The many households that suffered a decline in Disposable and Discretionary Income now consume less expensive goods and services to balance their budgets. Over the last decade, cost-efficient retailers such as Walmart and Target built new Super stores in the major retail nodes in the High Desert; and other retailers established outlets adjacent to the super centers. Lower cost retailers leased the space vacated by the high cost retailers; thereby absorbing some but not all the excess vacancy created by the transition to less expensive goods and services.

The second trend that will have a substantial impact on the demand for retail space is the internet. In 2016 internet sales equaled 11.7% of total retail sales in the United States. Amazon's purchase of Whole Foods is an indication groceries and even prepared food will be purchased through the internet and delivered to the home. Some individuals are getting prepared meals delivered. As this expands it will compete with restaurants and fast food outlets as well as traditional grocery operators.

The combination of both trends has created a hierarchy of retail centers in the High Desert; At the top are the primary centers, which are located along the I-15 freeway or at the intersection of a few major arterials and streets. These centers command the highest rents and market values in the High Desert. In the middle are the older, secondary centers, that cater to cost conscious retailers occupying second generation space. They generate significantly lower rents for the landlords. At the bottom are a few neighborhood, power and strip centers that suffer from functional and locational obsolescence. The vacancy rates for such shopping centers tend to be high and the rents are low. Many centers in this category will likely be repositioned to other land uses.

Inventory of Retail Space

At the end of 2nd Quarter 2017, there was 17,743,000 Square Feet (SF) of retail space in the High Desert (**Figure 1**). The City of Victorville, which historically has been the dominant retail core for the High Desert Region, accounted for 43% of the retail inventory. The Cities of Apple Valley, Barstow, and Hesperia each represented approximately 17% to 18% of the regions retail floor area. Adelanto, with one neighborhood center and a few additional retail stores represented 1.7%. The rural, unincorporated areas of the High Desert accounted for the remaining 4.0% of the retail space in the region.

Since the beginning of 2008 developers have delivered 2,443,000 SF of retail space in the High Desert. This represents a 16.0% addition to the 15,300,000 SF that existed in the High Desert 9½ years before. **Figure 2** reflects the cumulative increase in the inventory of retail space by city. The Cities of Victorville, Hesperia and Apple Valley have each added between 616,000 SF and 878,000 SF over the 9½-year period, while the Cities of Adelanto and Barstow and the rural communities have added between 29,000 SF and 41,000 SF. In most instances, the increase in the floor area of retail space correlates with the increase in population. The exception is the City of Adelanto, which has had significant population growth; but a small increase in retail space, because many of its residents' shop in the City of Victorville.

Figure 3 summarizes the cumulative additions to the retail stock in the High Desert by the type of retail product. During the 9½-year period ending with June 2017, Power Centers and the Regional Malls added 1,765,000 SF of space, which was 72% of the total increase to the retail inventory. At the end of 2nd Quarter 2017 Power Centers accounted for 6,095,000 SF of retail space. Another 405,000 SF of floor area added over the same period was classified as General Retail. This represented 17% of the additional retail space added to the region. The total inventory of General Retail space at the end of last year was 6,038,000 SF. Neighborhood Centers accounted for 326,000 SF or 6.0% of the additions to the retail stock. However, all but 7,000 SF of the increase in the floor area of Neighborhood Centers occurred prior to 2009. As of the end of 1st half of 2017, Neighborhood Centers accounted for 3,921,000 SF of space. Over the last decade 135,000 SF was added in Strip Centers. This represented 5.5% of the retail floor area added in the region. By the end of the period there was 1,690,000 SF of space in strip centers.

Only 25,900 SF of retail space was delivered in the first half of 2017, including a Dodge RAM Truck Dealership, an O'Reilly Auto Parts store and a Krispy Kreme outlet in Victorville; however, there was approximately 256,000 SF of the retail space under construction at the end of that six-month period. Approximately 196,000 SF relates to the new Super Walmart in Barstow. The adjacent Walmart facility will be demolished once the new facility is open. The New Toyota Auto Dealership accounts for the 33,671 SF under construction in Victorville. Most of the 21,725 SF under construction in Hesperia is in smaller buildings near the super Walmart at the intersection of Escondido Avenue and Main Street on the east side of the I-15 freeway or the Target Center on the west side of the Freeway. There is also a 4,000 SF facility under construction near the Pilot Truck stop and the buildings under construction at the NEC of Main Street and Escondido Avenue will be occupied by Aldi and Dollar Tree.

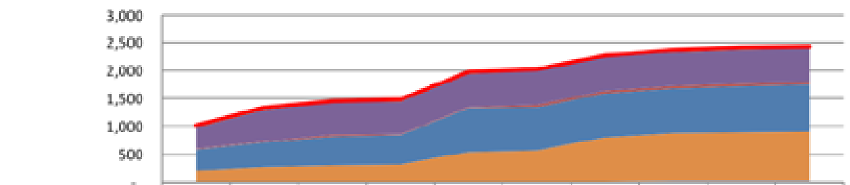
Most of the new construction over the last few years is associated with the construction of Super Walmart Centers and the attendant satellite buildings that house users or tenants that feed off the traffic generated by a Walmart supercenter. The new Walmart anchored centers are located at the intersection of the I-15 Freeway and/or the arterials and major streets. They are in the primary retail nodes in the High Desert. Much of the remaining retail construction involves General Retail facilities such as automotive dealerships or restaurants adjacent to the I-15 freeway. Over the last few years there has been very little construction outside of the primary retail nodes in the High Desert.

Net Absorption

From 2014 through 2nd Quarter 2017, the cumulative Net Absorption of retail space in the High Desert was 543,000 SF (**Figure 4**). From 2008 through 2013 the increase in demand was

Figure 3

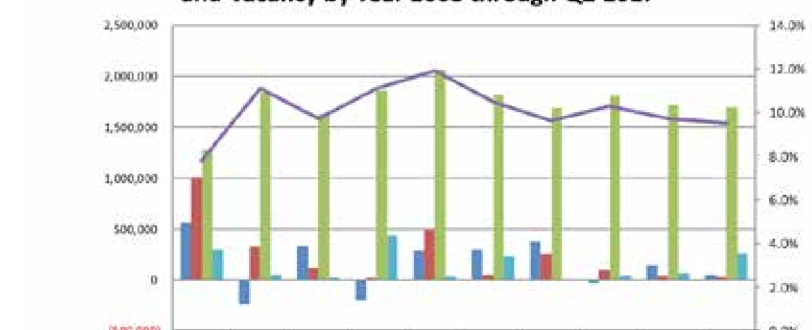
Cummulative Increase in the Inventory of Retail Space in the High Desert and by City from 2008 through Q2-2017



	2008	2009	2010	2011	2012	2013	2014	2015	2016	Q2-2017
Adelanto	30	30	30	30	30	30	30	34	34	34
Apple Valley	384	578	587	587	596	615	615	615	616	616
Barstow	16	16	20	23	27	36	41	41	41	41
Hesperia	383	435	514	518	781	785	788	817	843	848
Victorville	192	273	301	319	532	553	794	839	857	878
Unincorporated	2	2	5	5	11	11	11	29	29	29
High Desert	1,008	1,334	1,457	1,481	1,975	2,028	2,277	2,373	2,417	2,443

Figure 4

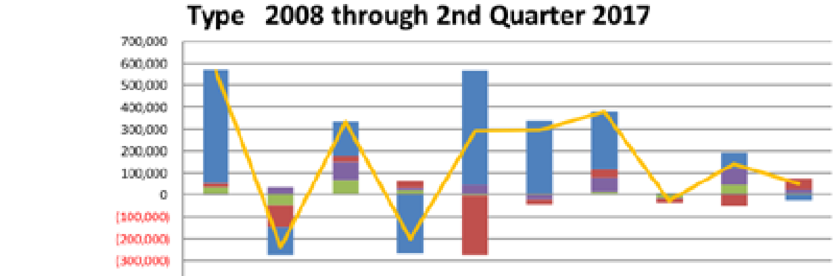
High Desert Retail Net Absorption, Construction Deliveries and Vacancy by Year 2008 through Q2-2017



	2008	2009	2010	2011	2012	2013	2014	2015	2016	Q2-2017
Net Absorption	564,060	(238,999)	332,495	(202,792)	292,056	293,871	378,777	(26,664)	141,883	49,206
Delivered	1,007,52	326,211	123,120	24,241	404,498	32,877	248,808	96,472	44,160	25,900
Vacancy	1,274,065	1,839,295	1,630,120	1,857,558	2,059,595	1,818,601	1,580,632	1,813,768	1,714,245	1,690,989
Under Construction	294,835	52,220	17,305	432,455	31,877	233,015	0	41,150	65,690	256,274
Vacancy Rate	7.8	11.1	9.7	11.1	11.9	10.5	9.6	10.3	9.7	9.5

Figure 5

High Desert Retail Annual Net Absorption by Product Type 2008 through 2nd Quarter 2017

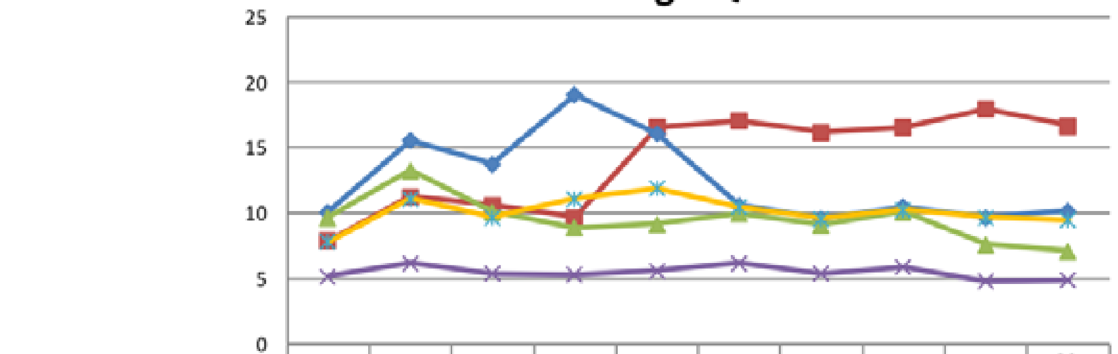


	2008	2009	2010	2011	2012	2013	2014	2015	2016	Q2-2017
Power Centers to Malls	517,116	(125,992)	154,742	(267,932)	521,609	337,563	263,719	7,913	70,178	(26,164)
Neighborhood Centers	17,084	(102,936)	27,693	33,047	(267,820)	(21,755)	36,741	(14,703)	(49,900)	52,280
General Retail	(3,582)	34,478	81,309	11,969	43,697	(19,285)	62,912	(3,212)	76,764	14,664
Strip Centers	33,442	(44,549)	68,751	20,124	(5,430)	(2,652)	15,405	(16,662)	44,841	8,426
All Retail Product Types	564,060	(238,999)	332,495	(202,792)	292,056	293,871	378,777	(26,664)	141,883	49,206

RETAIL REPORT

Figure 6

High Desert Retail Vacancy Rates by Product Type at Yearend 2008 through Q2-2017



	2008	2009	2010	2011	2012	2013	2014	2015	2016	Q2-2017
Neighborhood Centers	7.9	11.3	10.6	9.7	16.6	17.1	16.2	16.6	18	16.7
Power Centers to Malls	10.1	15.6	13.8	19.1	16.1	10.6	9.6	10.5	9.7	10.2
General Retail	5.2	6.2	5.4	5.3	5.6	6.2	5.4	5.9	4.8	4.9
Strip Centers	9.7	13.3	10.1	8.9	9.2	10	9.1	10.1	7.6	7.1
All Retail Product Types	7.8	11.1	9.7	11.1	11.9	10.5	9.6	10.3	9.7	9.5

1,041,000 SF. The increase in the occupancy of retail space in the High Desert from 2012 through 2016 is primarily attributed to the delivery and opening of two Super Walmart stores in Victorville and one in Hesperia, a super Target anchored center in Apple Valley, Macy's, Dick's Sporting Goods and an expanded J.C. Penney's at The Mall of Victor Valley, a few auto dealerships, a truck dealership and two Hispanic Grocers. Super Walmart anchored centers are expected to drive the lion's share of the retail absorption in the High Desert over the next few years. A new super Walmart just opened in Barstow and the company is planning to develop similar facilities in Victorville and The Town of Apple Valley.

Figure 5 depicts the Net Absorption by year for each of the four types of retail properties. Over the 9½ -year period ending with the 2nd Quarter 2017, 1,453,000 SF or 92% of the Net Absorption in the High Desert was in the Power Centers and the Mall of Victor Valley. In the last 4½ years, they absorbed 653,000 SF or 78% of the Net absorption for all product types. This was the case, because two of the other product types had negative Net Absorption. Neighborhood Centers experienced a (290,000) negative absorption over the same period, though they realized a 2,700 SF increase in occupancy over the last 4½ years. One factor that added to the absorption of anchor space in older Neighborhood and Community Centers was the increase of discount stores and Hispanic (focused) markets in the High Desert. Strip Centers with 122,000 SF of Net Absorption accounted for 5.9% of the Net Absorption of retail space in the High Desert from 2008 through the 2nd Quarter 2017. For the last 4½ years, the occupancy level of Strip Centers increased by 49,000 SF. The occupancy of Strip Centers over the last few years has been stable. General Retail space had a Net Absorption of 300,000 SF in during the last 9½ years, which represented 18.9% of the regions increase in demand. During the last 4½ years General Retail accounted for 132,000 SF or 15.8% of the increase in occupancy. The expansion of automotive dealerships in the City of Victorville accounts for a portion of this General Retail absorption.

While the High Desert has been absorbing additional retail space over the last few years, there is some question as to whether Retail Sales per SF of Net Rentable Area (NRA) has been increasing or decreasing, both in terms of nominal dollars and inflation adjusted dollars. Nominal taxable sales volumes have been increasing a bit faster than the combination of the rate of inflation and at the rate of population increase. Over the next few years the annual inflation rate will likely increase at 2%, which is the inflation rate target of Federal Reserve. The population is expected to continue increasing around 1% or 4,000 per year. Annual Net Absorption as a percent of the beginning occupancy levels has also increased at the same rate. The fact that Real Taxable Sales have been increasing a bit faster than the rate of population, suggests taxable retail sales per SF in constant dollars have been increasing at a slightly faster rate than the rate of absorption. This would not be a problem were it not for two issues. The first factor is Taxable Sales per SF of retail floor area in the High Desert in inflation adjusted dollars are approximately 35% less than they were in 2006. That has been the case each year since 2009. The second factor is the sale of goods and services on the internet has and will continue to capture an increasing share of consumer's expenditures. The shift of sales to the internet could more than offset the overall growth in retail sales in the High Desert unless there is a significant increase in the rate of population growth and/or Disposable and Discretionary Household Income. For that to occur there would have to be a material acceleration in the absorption of industrial space in the High Desert and wages in the Los Angeles Basin. There is uncertainty as to whether inflation adjusted retail sales per SF of floor area will increase or decrease over the next few years.

Vacancy Levels

By the end of the 1st Half of 2017 the vacancy rate for the High Desert had decreased to 9.5%, which though high was significantly less than the 11.9% vacancy rate at the end of 2012 (**Figure 6**). Except for the City of Adelanto, all the other incorporated areas had some degree of excess vacancy at the by June 2017 (**Figure 7**). Victorville had a vacancy rate of 8.8%. The rate for the Town of Apple Valley was 11.2%. Most of the Town's excess vacancy was created in 2011 due to the closing of the Lowes Home Improvement Center, which accounted for 4.2% of the total retail inventory; and the construction of a misplaced shopping center on Bear Valley Road and Central Road. Also, there is an older shopping center on Highway 18 that is almost completely vacant. If adjustments were made for these three facilities the vacancy rate in the Town would be close to 5.0%, which is normal. The vacancy rate in the City of Hesperia was 6.1% midway through 2017. The City of Adelanto had a vacancy rate of 1.4% at the end of the period studied, which is primarily related to their limited supply of retail space.

The vacancy rates for each of the four types retail products is much more revealing than the overall rates for each geographical area. The vacancy rate for Strip Centers decreased from 9.1% at yearend 2014 to 7.1% at the end of the 2nd Quarter 2017. Approximately 2 percentage points was likely Excess Vacancy.

During the same period, the vacancy rate for General Retail buildings decreased from 5.4% to 4.9% and the Vacancy Rate for Power Centers, Community Centers and the Mall of Victor Valley increased from 9.6% in 2007 to 10.2%. Some of this vacancy is in the older power centers where the anchor tenant such as Walmart relocated to a new location. However, most of the excess vacancy in the Power Centers is in the Lowes building, in older functionally obsolete buildings and in properties that suffer from locational obsolescence such as the former Target on Palmdale Road in Victorville.

At yearend 2014 Neighborhood Centers had a vacancy rate of 16.2%. Over the next two years the vacancy rate increased to 18.0% before ending the first half of 2017 at 16.7%. The less desirable Neighborhood Centers have been losing out to Power Centers that have multiple large retailers that attract more of the shoppers. As a result, some Neighborhood Centers are suffering from functional and locational obsolescence, which has led to very high vacancy rates and low rents.

When adjustments are made for the centers with extreme functional and locational obsolescence the vacancy level competitive center is approximately 5%, which is normal. Nevertheless, rents are still depressed because there has not been much absorption of retail space in the secondary locations.

Figure 7 includes a summary of the average Quoted Rents in the High Desert for the last 2½ years. These are average asking rents as reported by Costar, which do not reflect negotiated Effective Rents that in many cases are often lower. The rents reflect the NNN Rents and the NNN Charges, which reimburse the Landlord for Property Taxes, Property Insurance, and Common Area Maintenance (CAM) expenses.

Average and Effective rents have increased slightly over the last few years; however, they remain substantially below the levels of the boom years of 2006 and 2007. When population growth and median household income begins to approach long term expectations, retail rents could increase significantly. Until then, rents are expected to experience incremental increases as retail sales in the High Desert track with the temporary slow growth in population and low rates of inflation. The rent levels for the retail space adjacent to the Super Walmart stores, the Super Target stores and in other primary retail nodes are substantially higher than the average rents reported in **Figure 7**, which is heavily weighted by the available space in secondary locations.

Figure 7

	Adelanto	Apple Valley	Barstow	Hesperia	Victorville	Rural Areas	High Desert
2014 Rent/SF	$0.70	$0.83	$0.89	$1.13	$1.13	$0.87	$1.00
2015 Rents/SF	$0.77	$1.06	$0.92	$1.14	$1.08	$1.04	$1.04
2016 Renr/SF	$1.02	$1.03	$0.88	$1.15	$1.08	$1.08	$1.03
Q2-2017 Rent/SF	$1.06	$1.06	$0.96	$1.20	$1.08	$1.19	$1.06
Q2-2017 Vacancy Rate	1.4%	11.2%	16.0%	6.1%	8.8%	1.5%	9.5%
2016 Vacancy Rate	1.4%	11.0%	16.0%	6.2%	9.2%	1.9%	9.7%
2015 Vacancy Rate	3.9%	10.6%	17.2%	7.8%	9.3%	1.4%	10.3%
2014 Vacancy Rate	4.1%	10.3%	16.6%	7.0%	8.4%	3.7%	9.6%

Figure 8

	Less than $500k	$500k - $1.49M	$1.5M - $4.9M	$5.0M - $9.9M	$10M and above	Total
No. of Transactions	2	3	5	3	0	13
Dollar Volume	$464,000	$3,657,603	$10,128,000	$15,942,000	$-	$30,191,603
Avg. Sales Price	$232,000	$1,219,201	$2,025,600	$5,314,000	$-	$2,322,431

Since the Great Recession the Inland Empire and the High Desert have seen many higher priced retailers such as Ralphs Grocery in Apple Valley and Victorville and Vons Grocery in Hesperia replaced by purveyors of more economically priced goods and services including Walmart, 99 Cents Only Stores, Dollar General, Family Dollar and Dollar Tree to name a few. Also, many operators have reduced the size of their stores because as in most areas of the United States, real household income for the lower 90% of the households based on income has declined since the Great Recession forcing many to become more cost-conscious shoppers. This transition to more cost-efficient retailers is substantially completed for the High Desert.

The remaining question relates to whether the sale of goods and services on the internet will divert retail sales from the brick and mortar outlets in the High Desert to an extent that would lower or significantly slow the growth in inflation adjusted retail sales per square foot of floor area. Two factors that would impact the answer is the rate of population growth and the degree to which the Median Household Income increases in the High Desert. Obviously the greater the rate of population growth and the escalation of household incomes the more likely it would offset additional sales captured by the internet. Another factor would be the rate at which additional retail sales are captured by the internet based companies. The faster the internet based companies capture market share the more difficult it would be for population and household income growth to offset the migration of sales to the internet. There have been published articles chronicling the increased vacancy in malls and shopping centers due to the impact of the internet; but it is not clear whether the increased vacancy is in higher priced centers or in most centers. For now, the internet should be viewed as a source of risk. The extent of its impact on the High Desert longer term is unknown.

RETAIL REPORT

Retail Property Sales

Figure 8 depicts statistics related to the sale of retail and hospitality properties in the High Desert during the First Half of 2017. There were 13 sale transactions, of which 2 had a sales price of less than $500,000. The average sales price for properties in this category was $232,000. Three transactions had a sales price between $500,000 and $1,499,999, the average of which was $1,219,201. There were 5 sales involving a price between $1,500,000 and $4,999,999. The average sales price in this group was $2,025,600. There were three sales in the $5,000,000 to $9,999,999 price range; and the they had a average sales price of $5,313,000. There were not any transactions involving a sales price over $10,000,000.

The highest sales price in the first half of 2017 was a 4,247 SF truck stop building on 8.77 acres of land at 2191 West Main Street in Barstow, CA. The property was remodeled and rebranded as an Arco. The long-term future use is retail or general commercial. The price per SF of land was $14.33. It sold on March 7, 2017 for $5,475,000. The second highest priced sale involved an 8,356 SF restaurant at the entrance to The Mall at Victor Valley. Located at 12180 Amargosa Road in the City of Victorville, it sold for $5,437,000 on April 10, 2017. The price reflects a 5.98% Cap Rate; and it is equivalent to $650.67 per SF. Third place went to the sale of a 6,000 SF freestanding Union Bank building fronting on Highway 18 in the Target Anchored Power Center in The Town of Apple Valley, which commanded a price of $5,030,000. This is equivalent to a Sales price of $838.33 per SF. The transaction occurred on January 19, 2017. It sold at a 5.38% Cap Rate. Other Sales in the first six months of 2017, involved the Big 5 Sporting Goods building in Victorville, the Popeyes fast food restaurant on Bear Valley Road in Hesperia, a couple of gas stations and miscellaneous other properties.

Two of the sales involved properties at the Mall in Victorville and one was in a Target anchored power center in the Town of Apple Valley. The low Cap Rates and high prices per SF reflect the preference of investors and tenants to be in or near centers that will benefit from the traffic generated by a Super Walmart, a Super Target stores or the departments stores in a mall.

The total consideration for all 13 transactions was $30,191,603. The median building size was 4,247 SF. The median Sales Price was $1,625,000 and the median sales price per SF was $636.36 The price per SF ranged from $70.92 to $1,289.15. The latter reflects the value of the land.

Conclusions

The High Desert is expected to substantially complete the transition to more cost-efficient retailers over the next two to four years. This summer a Super Walmart will open for business in Barstow. Another Walmart Supercenter is slated for the Town of Apple Valley on Dale Evans Parkway two blocks north of Highway 18; and a second center is planned for the eastern edge of Victorville on Bear Valley Road. Both centers have been delayed because of litigation related to their impact on the environment.

The development of Super Walmart centers has created opportunities for the development of satellite retail buildings in the same center or on adjacent parcels that command a substantial rent premium compared to the average rent for comparable space in the High Desert. Such properties have also sold at significantly lower Cap Rates and at a substantially higher price per Square Foot. This trend is expected to continue; because national and regional tenants are willing to pay a premium to locate in primary rather than a secondary location.

The more cost-conscious retailers have leased space in the older existing centers at rent levels substantial below what is being achieved in newly constructed facilities. The lower rents are necessary to make their operations profitable. This releasing of existing buildings has absorbed some of the excess vacancy in the High Desert. Cost-conscious retailers are expected to continue absorbing some of the excess vacancy; unless they lose sales to the internet.

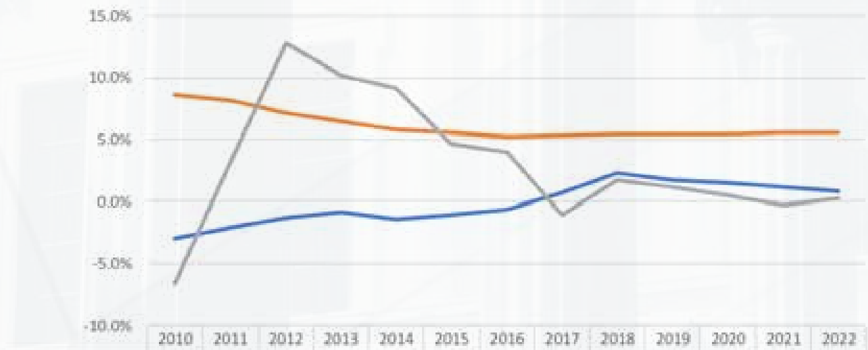
Even with the recent absorption of retail space, some older Neighborhood Shopping Centers and Power Centers still have a significant amount of vacancy. In some cases, the centers suffer from locational obsolescence and even functional obsolescence. A substantial growth in population would attract tenants to occupy a portion of this vacant space; but there are centers located in areas that are no longer acceptable to the cost-conscious retailers. Such space should be recycled to other uses.

The increase in retail sales after the Great Recession has tracked with the growth in population, and inflation. More recently, small increases in wages and salaries have also added to the purchasing power of households in the High Desert. The trend for retail sales is positive; but incremental. For there to be a jump in retail sales there would have to a significant increase in the average wage and salary of employees in the Inland Empire. For there to be an acceleration in the rate of population growth in the High Desert there would have to be a meaningful expansion of the Base Employment in the Inland Empire and preferably the High Desert via the expansion of the industrial base. If this were to happen over the next few years, it would increase the demand for retail space in the High Desert provided the increase in consumption were not syphoned off by the internet.

The faster the internet based companies capture market share the more difficult it would be for population and household income growth to offset the migration of sales to the internet. The extent of its impact on the High Desert longer term is unknown. As a minimum, it will slow down the growth of retail sales in brick and mortar facilities. At the other end of the scale it could substantially reduce the sales volume per Square Foot of retail floor area. This could lead to higher vacancy rates for certain types of retail outlets and lower rents. For now, the internet should be viewed as a source of risk for real estate investments in the High Desert if not everywhere.

Cap Rate

Price Growth - NOI Growth and Cap-Rates
Retail Investments - Inland Empire - 2010 - 2022



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
NOI Growth	-3.0%	-2.1%	-1.3%	-0.9%	-1.4%	-1.1%	-0.6%	0.7%	2.3%	1.7%	1.5%	1.2%	0.8%
Cap-Rate	8.6%	8.1%	7.1%	6.4%	5.8%	5.5%	5.2%	5.3%	5.4%	5.4%	5.4%	5.5%	5.6%
Price Growth	-6.6%	3.3%	12.8%	10.2%	9.1%	4.6%	4.0%	-1.1%	1.7%	1.1%	0.5%	-0.3%	0.2%

Sales Volume

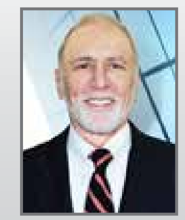
Return on Retail Investments - Inland Empire
by Return Components - 2010 - 2022

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Appreciation Return	-9.2%	0.5%	9.7%	7.2%	6.1%	1.7%	1.2%	-3.8%	-1.1%	-1.6%	-2.2%	-3.0%	-2.5%
Income Return	8.5%	8.5%	7.7%	6.8%	6.2%	5.6%	5.4%	5.2%	5.3%	5.4%	5.4%	5.5%	5.5%
Total Return	-1.3%	9.0%	18.0%	14.4%	12.5%	7.4%	6.6%	1.3%	4.2%	3.7%	3.1%	2.3%	2.9%

2017

Capital Markets

Coldwell Banker Commercial Victorville, California



Ron Barbieri
Senior Vice President

Jason Lamoreaux
President / Broker

Demand

Demand remained strong with foreign capital continuing to drive the investment market.

Inventory

Inventory remains tight, as demand eceeds available inventory.

Cap Rate

CAP Rates increased slightly in 2017 from 5.2% to 5.3%.

Moderate Returns Forcasted for Inland Empire Retail Investments

Dr. Ronald J. Barbieri, Ph.D., MBA

Information on Sales Prices, Cap Rates and other Capital Market Data have been included in the Articles on the Office, Industrial and Retail Markets for this issue. This article on the Capital Markets is devoted to a discussion of the relationship between factors that determine the Total Return on a real estate investment, which include: Property Appreciation and Income Return and Net Operating Income (NOI), Changes in Price and Cap-Rates. Costar did a study on the performance of Retail Investment Properties in the Inland Empire from 2010 through 2016; and used this information to project the performance for this property type through the Year 2022. The results are reflected in the accompanying tables.

The annual Price Growth of Retail Investments, which was a negative 6.6% in 2010, peaked at 12.8% 2012 and settled at 4.0% in 2016. The forecast for 2017 was -1.1% and for the subsequent 5 years it ranged from a -0.3% to 1.7%. The cumulative Price Growth for the six-year forecast was approximately 1.7%, which was substantially less than the Price Growth for the prior seven years. The annual NOI Growth from 2010 through 2016 ranged from a negative -3.0% to -0.6%. The significant price growth during the first 7 years was because the Cap Rate declined from 8.6% to 5.2%. Costar is forecasting the NOI for Retail Investments will grow between 0.7% and 2.3% over the next 6 years; but the annual Price Growth is minimal, because the Cap-Rate is projected to increase from 5.2% in 2016 to 5.6% in 2022. If the NOI is constant, increasing Cap-Rates would cause prices to decline.

Costar disaggregated the Total Return into Appreciation Return and Income Return for each year. Total Return, which was -1.3% in 2010, peaked at 18.0% in 2012 and remained high through 2014 before declining to 6.6% in 2016. For the next six years the Total Return is projected to range from 1.3% to 4.2%. This is substantially below the first 7 years of the study. The Income Return, which was 8.5% in 2010 declined to 5.4% in 2016. This correlates with the decline in Cap-Rates. For the next 6 years, Income Return is projected to increase from 5.2% to 5.5% reflecting the anticipated increase in Cap-Rates. Appreciation Return went from a -9.2% in 2010 to 9.7% in 2012. It remained high through 2014, before declining to 1.2% in 2016. The annual Appreciation Return is projected to be negative from 2017 through 2022, ranging from a minus 1.1% to -3.8%. This is due to the combination of low NOI Growth over the next 6 years and a slight rise in the Cap-Rates.

At any point in time the Cap Rates for Retail Investment Properties in a Region are influenced by the mortgage interest rate for the property, the expectations regarding price appreciation, the quality and reliability of the NOI and the anticipated growth or decline in the Net Operating Income. However, all things being equal an increase in mortgage interest rates will cause an increase in the Cap-Rate and a decline the value of a retail property. The Federal Reserve (The Fed) has depressed interest rates since the start of the Great Recession. It has tightened monetary policy slightly over the 1½ years; now there are indications The Fed may raise interest rates further by increasing the discount rate and selling a portion of the bonds it purchased during its program of Quantitative Easing. Several economists have recently advised the Fed to stop fighting deflation and raise interest rates. If the interest rates were to increase by 300 basis points over the next five years, Costar's projected Cap Rate of 5.6% in 2022 could be 200 basis points higher at 7.6%; and the price of Retail Investments could experience a significant decline.

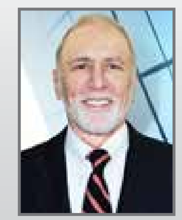
2017

Land Market Watch

Coldwell Banker Commercial Victorville, California

Land Investment in the High Desert now requires an understanding of Microtrends

Dr. Ronald J. Barbieri, Ph.D., MBA



Ron Barbieri
Senior Vice President

Bob Basen
Vice President

Activity

Transactional dollar volume increased over the same period in 2016.

Inventory

Land available for sale has been stable.

Current Development

Building permits for new housing starts and industrial development has increased.

If you purchased land anywhere in the High Desert in 2002, by the end of 2005 you would have looked like a genius. If you sold the property in the second half of 2005, by 2010 you would have looked like genius. If you purchase land in 2011 in most cases you may have realized profits by the end of 2014 due to the general increases in land values. However, since the beginning of 2015 changes in land values have varied by geographical area and across the major land uses. The value of residential land for single family homes available for tract development has remained flat for three years; but individual finished single-family lots in Apple Valley and Hesperia have experienced a material increase in value over the last 18 months. Land zoned commercial adjacent to the I-15 Freeway near the on and off ramps or sites in the premier retail nodes in the High Desert have appreciated significantly in value; but commercially zoned land elsewhere in the High Desert has effectively suffered a decline. Since the beginning of 2015 industrial land in some areas of the High Desert have experienced slight to moderate appreciation in value; but industrial lots in the Cannabis Cultivation zone realized a 1,500 to 2,500 percent increase in value after the City of Adelanto adopted an ordinance legalizing the cultivation of cannabis for medical purposes. Many of the land parcels in the High Desert, located far from suburban development, that experienced a decline of 90% to 95% since 2006 have continued to decline after 2015. There are five major street and highway projects that will positively or negatively impact the value of commercial and residential zoned land in the High Desert when they are completed. To end up looking like a genius in 2020, a land investor will have to focus on the micro trends associated with each type of land use and geographical submarket; and factor in the impact additions to the transportation systems will have on land values. The following research report describes the factors that will influence land values in the High Desert over the next several years.

General Economic Relationships

The magnitude and direction of changes in land values in the High Desert have varied significantly depending on the anticipated land use for the property and its location relative to the emerging concentration of demand for each land use. On the demand side, price trends associated with parcels destined for residential or commercial development, including retail, hospitality and office uses, are positively correlated to expectations of population growth, household formations, and changes in Real Household Income. The demand for residential and commercial land is negatively impacted by government mandated expenditures, such as health insurance, increases in energy costs and increases in development fees. If households must spend significantly more on health care and energy they will curtail their expenditures for housing, consumer goods and avoid long commutes to work. There is no such thing as a free lunch.

The value of industrial land in the High Desert is a function of the expected growth in the demand for industrial buildings in the Inland Empire and the migration of such industrial absorption to the High Desert. Another emerging source of increasing demand for industrial space in the Victor Valley area is the cultivation of cannabis for medical use. Most of the absorption of industrial space coincides with the creation of Base Employment, which generates an almost equal amount of Secondary Employment. An increase is Base and Secondary Employment is necessary for population growth. In the past, most of the increase in Base Employment for the High

Desert has been in the form of more individuals commuting to work in the lower Inland Empire and the Los Angeles Basin. Today. an estimated 60,000 employees drive down the I-15 freeway to work. This form of Base Employment is expected to continue expanding; but, for the High Desert to experience substantial population growth, there will have to be a significant acceleration in the growth of Base Employment due to the expansion of the industrial activity in the High Desert.

The interaction of supply and demand determine land prices. Even though there is an abundance of vacant land in the High Desert, the supply of land parcels that can be developed into usable lots or sites is far more limited. One limiting restriction is the availability of utilities; another is vehicular access and the third is proximity to consumers, often referred to as "roof tops." The impact of the various supply and demand factors on land values in the High Desert vary significantly across the major land use categories, which include residential, retail and hospitality, office, industrial and rural or remote parcels. The different expectations of supply and demand are discussed for each major land use to arrive at conclusions that sometimes conflict with the conventional wisdom.

Residential

The demand for lots and raw land for single family home development is dependent on job formation and rising household incomes, both here in the High Desert and in the Los Angeles Basin portion of San Bernardino and Riverside Counties. The average annual increase in employment for both counties over the last 3 years was 46,000. All the jobs lost in the Great Recession have been replaced and an additional 25,600 jobs were created. Total Employment as of May 2017 was 1,891,527, which was 13.4% higher than employment levels prior to the start of the Great Recession. Over the last 3 years unemployment rates have declined from 7.8% to 4.5% in the Inland Empire. One would expect the demand for new Single-family homes would be exploding; but that is not the case in the Inland Empire, in part because there is still an affordability issue.

Average and Median Household Income in the Inland Empire have risen to $71,615 and $56,617 respectively. This represents a 37% increase from 2000; but only a 5% increase since the 2010 U.S. Census, which is 7.2% less than the 12.2% cumulative increase in inflation over the last seven years. The large spread between the Average and Median Household Income in the Inland Empire also suggests the lower 90% of the households by income are still not participating in the economic recovery and their Real Household Income has declined significantly more than 7.2% over the 7-year period. This is one reason more millennials and individuals under the age of 45 in the Los Angeles Basin are electing to be renters rather than owning Single-family homes. Fewer households can afford to own a home even though mortgage interest rates are extremely low. Consequently, most of the added demand for housing units has been satisfied by the construction of multifamily units in the Los Angeles Basin, of which the majority are apartments with the remaining being condominiums.

In the High Desert, there has been a moderate growth in employment and Median Household Income, resulting in low vacancy rates for apartments and single-family home, many of which have been converted to rental units. This has caused rents, home prices and the value of apartment units to rise; but not to a level that would cause a wave of new construction for either product. During the 18-month period ending in June 2017 the Median Price of an existing single-family home has increased 18% to $235,000 or $129 per SF of living area in the Victor Valley area. Single-family home prices in Barstow increased 20% to $134,000, which is equivalent to $92 per SF. The median price of existing Single-family homes would have to increase another $35,000 to $45,000 to make it financially viable for Single-family home builders to convert raw land into buildable lots and start building tract homes in volume. Local builders can deliver new product profitably on scattered single-family lots, because the local builders are buying the lots well below the cost to develop finished lots in new housing tracts from unentitled raw land.

Only Del Webb by Pulte Homes at Jess Ranch, DR Horton, KB Homes, Frontier Homes (a regional builder), Legacy Homes, Evergreen Homes, and Sorrento Homes (a local firm) are building single-family homes in tract developments in the High Desert. While permits issued were reported to be substantially higher, actual construction starts for single family homes in 2017 were less than the permits pulled, because the builders are testing the market with a low number of units per phase. Many of the projects are one or two-unit projects by local developers who purchase isolated finished lots and build 1,700 SF to 2,400 SF homes. There are a limited number of buyers willing to pay the premium for a new home in the Victor Valley area; even though there is an excess demand for existing single-family homes as evidenced by the fact new inventory of existing homes sell quickly; and the Coldwell Banker Home Source agents are clamoring for new homes to compensate for the lack of supply of existing homes available for sale.

Many of the merchant builders already own tracts of finished lots and paper lots, so they have not been purchasing and inventorying land for future development. There have been a few transactions involving land investors, who pay substantially less than users. Even though there have been some fluctuations, the value of residential land close to infrastructure, has been relatively flat for the last three years, because the next substantial wave of single family home development in the High Desert is still expected to be some time in the future rather than in the next year or so. Before there can be an substantial increase of Single-Family home construction in the Victor Valley area there must be a material acceleration in the level of Single-Family home construction in the Los Angeles Basin portion of the Inland Empire. As of the end of 2016 that has not materialized. The exception to stagnant residential land prices is the increase in value of individual Single-Family home lots in Apple Valley and Hesperia. A few local builders have been chasing a limited supply of finished lots, causing their value to increase by an estimated 40% over the last year. Nevertheless, the market value for individual finished lots is still substantially below replacement costs. Also, the sale of individual single-family home lots is a relatively thin market, which may evaporate when the merchant builders return to the High Desert.

There are two multi-family projects currently under construction. One is an approximately 200 unit, two phase subsidized housing project in Hesperia, with below market rents. It may very well be the last subsidized housing project in the City of Hesperia. It was financed with funds from HUD and the city's Redevelopment Agency. The State of California eliminated the Redevelopment Agencies in 2012. The other multi-family project under construction is a 200-unit development on the north side of Main Street near the Target anchored Shopping Center known as the Hesperia Gateway. The land for this market rent project was purchased at a very low price. There is little economic incentive to build higher density residential units in the High Desert because the value of land for single-family development is extremely low. This is the likely reason multi-family zoned land in the High Desert often has the same value per acre as parcels zoned for single-family units. Why would a developer pay a premium for multi-family zoned land if it is not feasible to build 15 to 20 units per acre?

LAND REPORT

Retail and Hospitality

In the High Desert, the increase in the demand for retail space has been limited since the Great Recession. This is evident by the fact that over the last 8 years Taxable Retail Sales have only increased at a rate slightly more than the rate of inflation (2%) plus the rate of population growth, which in recent years has approached 1% per year. Hence, the growth in retail sales, adjusted for inflation, is struggling to keep up with population growth, because of the stagnation of household income, coupled with the increase in mandated household expenditures. There is also concern the migration of retail sales to the internet over the next few years will more than offset the growth in population.

The second factor that has impacted the demand for retail land is the establishment of super Walmart and super Target stores. They have concentrated retail sales in their facilities and in the adjacent satellite stores to the detriment of many grocery anchored neighborhood centers and older, single anchor power centers. Retail sites nears the Walmart and Target supercenters have commanded rising premiums while potential neighborhood center sites are no longer in demand and have suffered a decline in value.

The third factor that has and will influence the demand for retail land is the completion of new transportation corridors or the expansion and upgrading of existing transportation corridors in the High Desert. The Completion of the Ranchero Road overpass in the City of Hesperia at the I-15 freeway and the underpass at the railroad tracks in the east has set the stage for the widening of Ranchero Road so it will become a major east-west corridor. Similarly, the completion of the bridge over the railroad tracks in Victorville will make the Greentree Boulevard / Yucca Loma Road another east-west corridor. The widening and straightening of Highway 138 from the I-15 freeway to Summit Valley will provide an alternative route for individuals that live in the eastern portion of Hesperia and Apple Valley to commute to work in the Los Angeles Basin. That project is slated for completion in 2018. Highway 395 will be converted from a two to a four-lane highway with a left turn median lane from south of Palmdale Road in Victorville to approximately 1 miles north of Air Expressway Blvd. in Adelanto. Construction for this project will start in 2018 and be completed in 2019. Finally, the construction of the E 220 Freeway would provide an east-west freeway connecting Palmdale, CA to Victorville and north Apple Valley. The completion of each transportation project will increase the value of some retail parcels and diminish the value of others.

Hotels, restaurants, fast food outlets gas stations and other retail stores continue to be built along the I-15 Freeway from Ranchero Road in the South to Roy Rogers Drive and Dale Evans Parkway in the north. The hotels and all the other tenants and users want to be visible from the freeway and have direct access near the on and off ramps. Because there are only a limited number of commercial sites that have visibility and access to the freeway, they are selling at a substantial premium. Land values in the established retail nodes such as the intersection of Bear Valley Road and Apple Valley Road have recently experienced an increase in value; while the value of commercially zoned land in other locations had price adjustments.

Because the High Desert is being built out as low-density suburban communities, there is an excess of retail zoned land along major streets in most cities of the High Desert. Many commercially zoned parcels are not expected to be developed for retail, hospitality, or other commercial uses. Over time, as this becomes obvious to more land investors, the value of such parcels will decline. It would be prudent for the owners of commercially zoned properties to ascertain if their property will ever be developed in the future as a commercial site. If the future land use is not commercial it is probably best for the owners to reposition the property, or consider liquidating their position in the property sooner rather than later.

Industrial

There are three drivers of the demand for industrial land in the High Desert. The first is the result of large manufacturing as well as warehousing and distribution facilities being built and occupied at SCLA or the Foxborough Industrial Park in Victorville or in the Industrial Park in north Apple Valley. The Cities of Hesperia, Adelanto and Barstow also have areas zoned for large industrial facilities that are near the I-15 Freeway or the planned E-220 Freeway; but they lack the infrastructure necessary to support immediate development. Industrial tenants and users in the High Desert occupy approximately 7 million SF in the large industrial facilities. Over the last decade industrial firms have absorbed on average an estimated 500,000 SF per year. This absorption rate is expected to substantially increase over the next decade as vacant industrial land become scarce and land prices rise in the Los Angeles Basin.

The second driver is the Cultivation of Cannabis for Medical Use. In November 2015, the City of Adelanto passed an Ordinance that allowed for the cultivation of Cannabis. Since then the value of industrial lots in the City of Adelanto that are within the cultivation zone have increased 1,500% to 2,500%. Finished industrial lots in the industrial parks that were selling for $10,000 to $20,000 per acre have commanded $300,000 to $500,000 per acre. Finished Industrial lots in Adelanto that are not in the cultivation zone have sold between $25,000 and $35,000 per acre during the last year.

The City of Adelanto expanded the cultivation zone by 160 acres in Q1 of 2016, and it recently proposed rezoning an additional 2,000 acres west of the existing cultivation zones to permit the growth of cannabis in industrial buildings. Almost all this land will require the installation of streets and utilities before it can be used for the cultivation of cannabis. In near term, the installation of streets and utilities is expected to progress from east to west as developers extend existing streets and utility lines. The longer-term pattern for infrastructure development in this industrial area has not been determined. In the short term, the value of land in the proposed cultivation zone will likely reflect the cost to install the infrastructure and when the streets and utilities will be available to specific properties. There have not been any land sales in the proposed cultivation expansion area since it was announced in late April of this year.

There are many unknowns that could impact the rate at which cannabis cultivation facilities are developed in the City of Adelanto. Some would have a negative impact. They include the possibility the Federal Government would block the cultivation of cannabis for medical purposes in all the states, including California. The consensus is this is not likely; but some argue it is a possibility. The availability of electric power may curtail the rate of growth until Southern California Edison (SCE) can deliver more power to the City of Adelanto. The city is actively working with SCE and the State of California to expedite getting a new substation in the City of Adelanto and/or an interim source of additional electric power. Other cities in California have or will adopt ordnances to permit the cultivation of cannabis for medical purposes. The Cities of Long Beach, Lancaster, Needles, and other cities in California now allow for the growing of cannabis.

On the positive side the Mayor, City Council and the staff of the City of Adelanto have taken steps to accelerate the approval process for obtaining the entitlements required to build cultivation facilities. This gives Adelanto an advantage when competing with other cities for cultivators. Also, cultivation will begin this summer in many existing Adelanto facilities.

The third driver of the demand for industrial land is the expansion of smaller industrial firms in the High Desert. As the cannabis growers lease or purchase buildings in Adelanto's cultivation zones they are forcing industrial firm to either relocate to sites in Adelanto that are outside of the cultivation zones or to industrial buildings or sites in other cities. This has resulted in very low vacancy levels and increased rents throughout the Victor Valley area; but rents have not approached the level required to justify new construction. Hence, users and developers have not been purchasing land to develop new industrial buildings. There have been upward movement over the last year in the price of industrial land and finished lots in Hesperia, the Town of Apple Valley and Victorville, though the value of finished industrial lots are still well below replacement costs.

Office

The only office space constructed in the High Desert over the last 18 months was for medical use. The new buildings tend to be small. They are typically owned by a medical practitioner or a medical group; and they often have SBA financing. The exception to this general trend is St. Mary's Medical Center. It is building a new Urgent Care facility adjacent to the hospital. There have been very few land acquisitions for the development of office buildings over the last couple of years. The asking price for office sites are high relative to the price per Square Foot realized in a sale to a user or developer.

Remote Land

The value of land located in the more remote areas of the High Desert is at best flat and in many cases, it has continued to decline. Land parcels in the High Desert that would have sold for $10,000 an acre in 2006 would now be valued as low as $300 to $1,000 per acre. In general, the more remote the parcel the greater the percentage decline in value. In 2005 the High Desert had experienced a population increase of 25,000. Housing starts were at 7,500 units per year and merchant builders were paying $50,000 a lot for entitled single-family residential tracts, mapped four or five units to the acre. After the Great Recession, single-family construction starts in the High Desert declined to less than 150 units in 2011 and in 2016 the construction starts were less than 200 units. Over the last few years land investors have become more conservative about the magnitude of the rebound in residential construction and when It would occur. Hence, the continuing decline in the value of remote land parcels.

Conclusions

Land values for specific parcels in the High Desert are expected to appreciate or decline over the next few years depending on the submarket, anticipated land use for the parcels, access to new transportation corridors and the availability of utilities. For example: The value of raw land and paper (Tentative Tract Mapped) lots for single-family homes has been relative flat for the last three years in the High Desert. The merchant builders are not focusing on the High Desert, because there has not been a significant increase in demand for such units in the Los Angeles Basin portion of the Inland Empire through 2016. There are reports the demand for new single-family homes in the lower Inland Empire has escalated during the first half of 2017. If that trend continues for all of 2017, it could shift the demand for residential lots to the High Desert. The limited increase in demand for single family homes is primarily the result of an affordability issue, particularly among millennials and individuals 36 to 45 years old.

The growth in retail sales, adjusted for inflation, has struggled to keep up with population growth. There is also concern the migration of retail sales to the internet over the next few years will more than offset the growth in population in the High Desert.

The establishment of super Walmart and super Target stores in the High Desert have concentrated retail sales in their facilities and in the adjacent satellite stores. Retail sites nears the Walmart and Target supercenters have commanded premiums prices while potential neighborhood center sites are no longer in demand.

The completion of new transportation corridors or the expansion and upgrading of existing transportation corridors in the High Desert over the next 2 to 4 years will increase the value of some retail parcels and diminish the value of others.

Commercial land adjacent to the I-15 Freeway near the on and off ramps have increased in value over the last two years. This trend will likely continue. Because of the oversupply of commercially zoned land in the High Desert, many commercially zoned parcels will not be developed for commercial uses in the future. This is one reason commercial parcels, not adjacent to the freeway or in the premier retail nodes, have experienced a decline in value.

Over the last decade industrial firms have absorbed an estimated 500,000 SF per year. The absorption of large industrial space by warehousing, distribution and manufacturing companies is expected to substantially increase over the next decade as vacant industrial land become scarce and land prices rise in the Los Angeles Basin. Industrial land values in the High Desert for the large box users have experienced some increases over the last two years.

LAND REPORT

In November 2015, the City of Adelanto passed an Ordinance that allowed for the cultivation of Cannabis. Since then the value of industrial lots in the City of Adelanto that are within the cultivation zone have increased 1,500% to 2,500%. The city recently proposed rezoning an additional 2,000 acres west of the existing cultivation zones to permit the growth of cannabis. There are many unknowns that could impact the rate at which cannabis cultivation facilities are developed in the City of Adelanto. Some would have a negative impact; others would accelerate the cultivation of cannabis.

As the cannabis growers lease or purchase buildings in Adelanto's cultivation zones they are forcing industrial firm to either relocate to sites in Adelanto outside of the cultivation zones or to industrial buildings or sites in other cities. This has resulted in very low vacancy levels and increased rents throughout the Victor Valley area; but rents have not approached the level required to justify new construction. Hence, users and developers have not been purchasing land to develop new industrial buildings. The value of existing industrial lots has risen over the last 18 months; but they are still well below replacement costs.

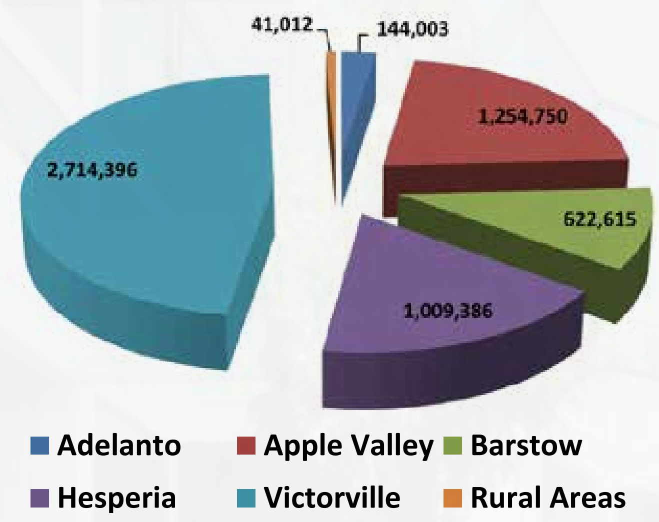
The only office space constructed in the High Desert over the last 18 months by the private sector was for medical use. There have been very few land acquisitions for the development of office buildings over the last couple of years.

The value of land located in the more remote areas of the High Desert has at best been flat and in many cases, it has continued to decline. In general, the more remote the parcel the greater the percentage decline in value.

The answer to the question: Whether you should invest in land in the High Desert or liquidate your position in a land investment will vary depending on the property's probable land use, the area of the city or unincorporated area in which it is located; and its proximity to new transportation corridors and utilities. Land investments in the High Desert could generate substantial profits or losses over the next few years, depending on how well the investor understands the micro trends impacting specific land parcels.

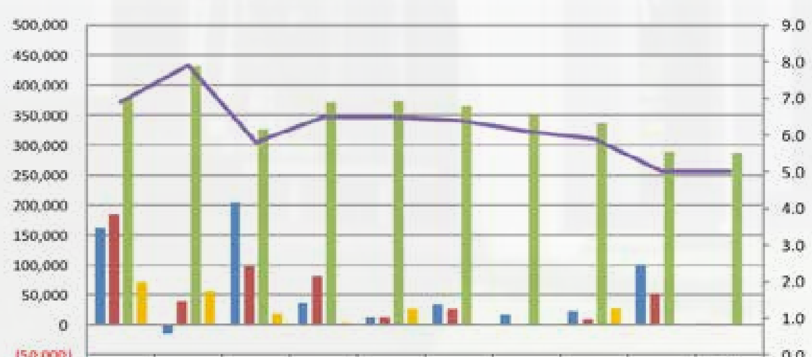
Office Inventory by City in the High Desert as of 2nd Quarter 2017

Figure 1



High Desert Office Net Absorption, Deliveries, Under Construction and Vacancy by the Year 2007-2nd Quarter 2017

Figure 2

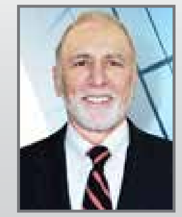


	2008	2009	2010	2011	2012	2013	2014	2015	2016	Q2-2017
Net Absorption	162,442	(14,280)	203,316	36,443	13,001	34,054	17,220	22,247	99,282	1,172
Delivered	184,838	40,025	97,815	81,565	13,680	27,363	-	10,000	52,297	-
Vacancy	377,930	432,235	326,734	371,856	372,535	365,844	348,624	336,377	289,392	288,220
Under Construction	71,000	56,028	19,022	3,480	27,363	0	0	27,980	0	0
Vacancy Rate	6.9	7.9	5.8	6.5	6.5	6.4	6.1	5.9	5.0	5.0

2017

Office Market Watch

Coldwell Banker Commercial Victorville, California



Ron Barbieri
Senior Vice President

Nick Di Cosola
Senior Vice President

Vacancy

Unchanged at the end of the 1st half of 2017.

Absorption

Absorption rate decreased substantially in the first half of 2017.

Lease Rates

Lease rates approximately the same as prior year.

Demand for Office space in the High Desert remains stable during First Half of 2017

Dr. Ronald J. Barbieri, Ph.D., MBA

There was a slight increase in the demand for office space in the High Desert during the first six months of 2017. No additional office space was added to the supply; so, the vacancy level remained at 5.0%. Asking rents edged up while the level of leasing activity subsided from the prior year. The relatively high level of Net Absorption of Office Space in 2016 was driven by the completion of several medical facilities. There were no such deliveries in the first six months of 2017 and there are no office buildings under construction. We do not have sufficient information to know whether this pause in absorption is temporary or an indication of future trends. Investors have purchased several office buildings in the High Desert during the first six months of this year.

Inventory

As of the end of June 2017 there were 887 office buildings in the High Desert with a total Net Rentable Area (NRA) of 5,786,000 SF (Figure 1). Most of the office building stock consists of Class B and C buildings. Almost all Class A, premier office buildings delivered between 2004 and 2011 in the High Desert were constructed for local governments and public agencies. Substantially all the office space occupied by the private sector is classified as B, C or D space.

The City of Victorville accounted for 47% of the total inventory of office space in the High Desert; followed by the Town of Apple Valley with 22%, Hesperia with 17% and Barstow with 11%. Approximately 3% of the office stock was in Adelanto and the unincorporated, rural areas represented less than 1% of the total NRA of office space.

Over the 10½ year period ending in June 2017, a total of 508,000 SF of office space was constructed in the High Desert (Figure 2). Only 103,000 SF of office space was completed between January 2011 and June 2017, half of which was delivered in 2016. Much of the space completed in 2016 was for medical users and tenants. No office space was delivered in the first half of 2017; and no buildings were under construction at of the end of June 2017. The lack of recent construction activity is consistent with the recent lack of absorption.

Absorption

During the 3½ years ending June 2017 the High Desert experienced a Net Absorption of 140,000 SF, of which 99,000 SF occurred in 2016. The increase in occupancy during the first six months of 2017 was only 1,172 SF. Over that 3½-year period tenants leased an additional 29,000 SF of office space in the Town of Apple Valley; Adelanto absorbed 2,700 SF; Barstow gained 37,500 SF of occupancy; Hesperia absorbed 16,500 SF and Victorville experienced a 53,100 SF increase in occupancy. The rural areas absorbed 1,000 SF.

Even though Net Absorption of office in the High Desert in 2016 was four times the average of the previous four years the Net Absorption was insignificant in the first half of 2017. Five of the six cities (six cities?) and the unincorporated area experienced positive absorption ranging from 463 SF in Adelanto to 6,122 SF in Hesperia. The City of Victorville had decrease in occupancy of (8,397) SF. Hence, the demand for office space was unchanged during the last six months; and level of leasing activity was less than the prior year.

This expansion of health services accounted for a substantial portion of the increased demand for office space in 2016. This was enabled by the completion of several medical related facilities. The Health Services industry was expected to continue absorbing office space in the High Desert; however, uncertainties related to the continuation of Obama Care may have dissipated the demand for medical office space in 2017. There were only four lease transactions involving medical uses during the six-month period. The demand for medical office space is concentrated in a limited number of submarkets. Medical tenants have clustered around Saint Joseph Health's Saint Mary Medical Center in the Town of Apple Valley, along Hesperia Road north of Bear Valley Road in Victorville, as well as in other office nodes such as 11th Street in Victorville next to the Victor Valley Global Medical Center Hospital.

During the first six months of 2017, most of the leasing activity involved the typical population supporting suburban office tenants, which includes firms in the Finance, Insurance and Real Estate industries and the professional services providers including accountants, financial advisors, and attorneys. This segment of the office demand appears to have stabilized since 2015. When the population growth of the High Desert accelerates from current levels, this segment of office space demand is expected to expand, albeit at a more subdued rate because of the trend to reduce the amount of office space required per employee.

Vacancy Rates

At the end of June 2017, the vacancy rate for office buildings across the High Desert was 5.0% (Figure 2), which was equivalent to 288,000 SF of vacant space (Figure 2). Victorville had a vacancy rate at 6.5%. The rate for the Town of Apple Valley was 4.2%. The City of Barstow had a Vacancy Rate of 5.6% (Figure 5). The Vacancy Rate for Hesperia was 2.1% and Adelanto's was 0.4%. In general, Vacancy Rates have declined since 2014. Barstow is a relative small market that experienced a 420-basis point decline in its Vacancy Rate since the end of 2014.

The vacancy is well disbursed throughout the stock of office facilities. There are a few buildings that have a high vacancy rate; but for the most part there is a low vacancy level in most buildings.

Rents are still well below replacement costs in the High Desert; but not because of high vacancy levels. Rents have been suppressed because of the low level of absorption and leasing activity. Since the end of the Great Recession the owners of existing buildings have been lowering rents to keep existing tenants in their buildings while competing with similar buildings for new tenants. Landlords looking to retain tenants while attracting new tenants contributed to the decline in rents from 2008 through 2012. For the 4 years ending with 2016, asking office rents have increased slightly. However, as Net Absorption increases and vacancy rates decline effective rents are expected to rise.

Quoted Rents

The Asking Rents depicted in Figure 5 are the sum of the NNN Base Rent and the NNN Charges for Property Taxes, Insurance and Common Area Maintenance (CAM). The rents reflect the average of all the properties available for lease as of the end of each year; and, as such, reflect the location, quality and condition of the properties listed as well a current market trends. Because the number of properties listed for lease in the High Desert is substantially greater than in any one city, reported rents for the High Desert are more stable and provide a better estimate of rent trends for the region. Average Rents for the High Desert increased from a low of $1.33 per SF in 2014 to $1.40 per SF in the 2nd Quarter of 2017. This is consistent with the assessment of real estate agents who believe office rents have increased somewhat. Recent increases in rents reflect a slight tightening of the office market. Actual effective rents are still below the level required to support the development of speculative office space where none or little of the space is preleased.

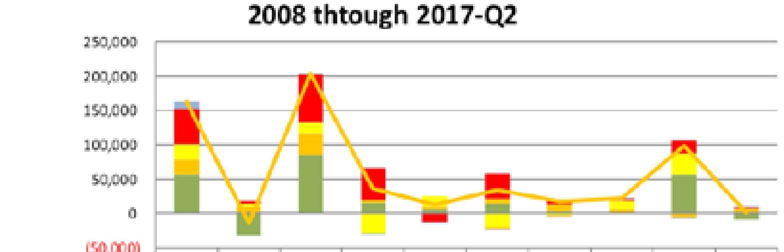
Office Building Sales

Figure 6 depicts statistics related to the sale of office buildings in the High Desert during the first half of 2017. There were seven sales. The average sales price for properties in this category was $1,883,000. There was one transaction that had a sales price less than $500,000 and four between $500,000 and $1,490,000, the average of which was $1,078,000. There was one sale involving a price between $1,500,000 and $4,900,000. The average sales price in this group was $1,600,000. There was only one sale in the $5,000,000 to $9,999,999. The transaction with the highest sales price involved a 34,998 SF office building at 15095 Amargosa Road in the City of Victorville. It sold on June 1, 2017. It was a 2-story, multi-tenant building that was completed in 2007. The building had a sales price of $7,100,000 ($202.87per SF). On January 23, 2017, a single-story office building at 12199 Industrial Blvd Victorville sold for $1,600,000 ($94.02 per SF). The Net Rentable Area of the buildings was 17,018 SF30,617 SF. The third largest sales transaction involved The Victor Valley Surgical Center at 12567 Hesperia Road in Victorville. It sold on May 26, 2017 for $1,380,000 or $265.38 per SF. The 5,200 SF building, which was built in 2007, is a special use building.

The total consideration for all 7 transactions was $13,182,000. The median building size was 6,578 SF. The median Sales Price was $1,200,000 and the median sales price per SF was $110.31 The price per

Figure 3

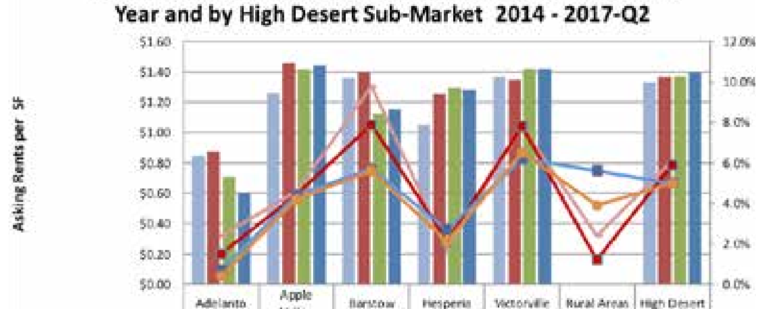
High Desert Office Annual Net Absorption by City 2008 thtough 2017-Q2



	2008	2009	2010	2011	2012	2013	2014	2015	2016	Q2-2017
Unincorporated	9,543	0	500	(792)	(308)	0	1,600	500	(1,806)	706
Apple Valley	51,420	3,788	69,300	46,679	(11,916	35,962	5,880	2,007	19,565	1,589
Adelanto	1,000	500	1,000	500	0	(3,333)	(73)	1,222	1,110	463
Barstow	21,804	4,283	15,578	(29,262	14,786	(20,184	(3,582)	11,612	28,780	689
Hesperia	21,498	10,017	31,483	3,209	4,017	6,471	10,228	5,975	(5,778)	6,122
Victorville	57,177	(32,868	85,455	16,109	6,422	15,138	3,167	931	57,411	(8,397)
High Desert	162,442	(14,280	203,316	36,443	13,001	34,054	17,220	22,247	99,282	1,172

Figure 4

Quoted Office Annual Rents per SF and Vacancy Rates by Year and by High Desert Sub-Market 2014 - 2017-Q2



	Adelanto	Apple Valley	Barstow	Hesperia	Victorville	Rural Areas	High Desert
2014 Rents/SF	$0.85	$1.26	$1.36	$1.05	$1.37	$0.00	$1.33
2015 Rents/SF	$0.88	$1.46	$1.40	$1.26	$1.35	$0.00	$1.37
2016 Rents/SF	$0.71	$1.42	$1.12	$1.29	$1.42	$0.00	$1.37
2017 Q2 Rents/SF	$0.60	$1.45	$1.15	$1.28	$1.42	0.00	$1.40
2014 Vacancy Rates	2.4%	4.6%	9.8%	1.7%	7.8%	2.4%	6.1%
2015 Vacancy Rate	1.5%	4.4%	7.9%	2.1%	7.8%	1.2%	5.9%
2016 Vacancy Rate	0.7%	4.4%	5.7%	2.7%	6.2%	5.6%	5.0%
2017 Q2 Vacancy Rate	0.4%	4.2%	5.6%	2.1%	6.5%	3.9%	5.0%

SF ranged from $38.72 to $265.38.

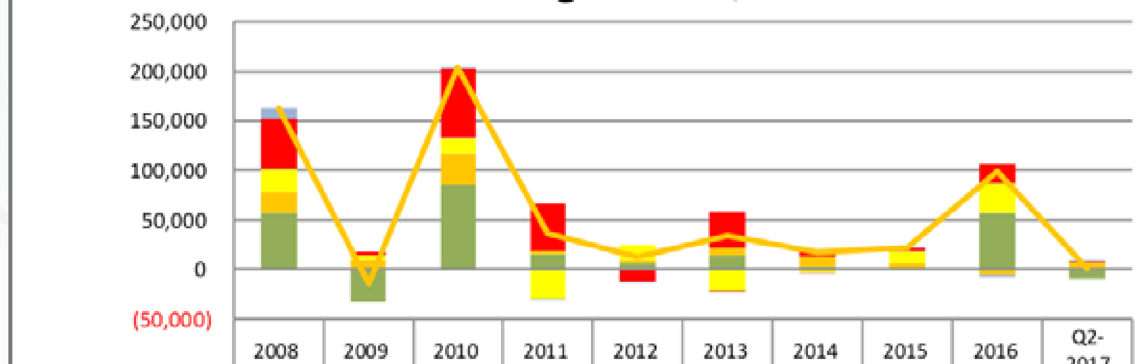
The value of office buildings is below replacement costs; consequently, there has not been any development activity without significant preleasing. The demand for office building sites is limited because of the lack of development. The prices paid for such sites are substantially below 2007 values and significantly below the costs to deliver finished commercial lots. Nevertheless, there is a large spread between the asking price for buildings and commercial lots and what potential buyers are willing to pay. Hence there have been a limited number of sales transactions during the six-month period.

Conclusions

The significant increase in the absorption of office space in the High Desert in 2016 did not carry forward

Figure 5

High Desert Office Annual Net Absorption by City 2008 thtough 2017-Q2



	2008	2009	2010	2011	2012	2013	2014	2015	2016	Q2-2017
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High Desert	162,442	(14,280	203,316	36,443	13,001	34,054	17,220	22,247	99,282	1,172

to 2017. The Net Absorption for the first half of 2017 was slightly positive. There was only a minor increase in demand for office space due to the expansion of the Health Services industry during the last 6-month period. This may be caused by the uncertainty created by the political activity in Washington, DC relative to Obama Care; then again, it may be caused by other factors, which we have not been able to determine.

Current effective office rents are significantly below the level required to justify new construction, which is why there is little new construction activity. In 2015 and 2016 much of the office space constructed involved one or more medical professionals building office space that they intended to occupy. Professionals in the Health Care industry can usually qualify for SBA loans, which provides an incentive to own or develop the building they occupy.

Over the next five years there may be continued growth in the demand for office space in the High Desert due to the expansion of the Health Services sector. To the extent there is such an increase demand it will likely be accommodated by professionals and institutions in the Health Care Services industry developing their own facility and occupying a substantial portion of the building for their own use.

Governmental organizations involved in education and social services may require a limited amount of additional office space; but it is highly unlikely that any of the local governments will need additional facilities; nor will they have the financial resources to funds such capital expenditures with the elimination of Redevelopment Agencies and the lack of development fees generated by high levels of single-family home development.

Finally, the increase in demand for office space from the typical suburban office space users is not expected to materialize until there is a substantial growth in population and household income caused by significant job formation in the Inland Empire and single -home construction in the High Desert. Neither is projected to occur in the next couple of years.

Thompson Facilitated the Sale of 9,100 SF Industrial Building

Victorville, Calif. – Steven Thompson, Vice President for Coldwell Banker Commercial, has coordinated the sale of an industrial building in Hesperia for over $750,000.00. Located on Mesa Street, the property was an ideal investment opportunity with many appealing features the buyer desired including a long term credit tenant, high demand asset class and centrally located in Hesperia's industrial zone.

Representing the landlord of the ±9,100 SF building, Thompson used Coldwell Banker Commercial's unique and innovative marketing tools to initiate an aggressive marketing plan. "Our marketing campaigns have been a major driving force in successful transactions. From securing listings to offers, we are able to generate interest in a timely manner," stated Thompson.

Ensuring he paid close attention to his client's priorities, Thompson worked to achieve a fair price and a swift transaction. "This property was perfect for an investor, especially with the tenant being the County of San Bernardino," stated Thompson, "There were three years left on the lease and an excellent Capitalization rate." Fran Fox of Coldwell Banker Home Source saw that opportunity and presented it to her long time investor client which ended in a successful transaction.

Basen & Schendel Sell Prime Victorville Office Property for $1.2M

Victorville, Calif. – The team of Coldwell Banker Commercial Vice President, Bob Basen, and Senior Client Advisor, Jerrad Schendel, completed the sale of a 4-suite office building located in the business corridor of Victorville. Representing both the buyer and seller of the property, Basen and Schendel worked diligently to market the property and obtain the right buyer.

The ±10,878 square foot 4-suite office building with 64 spaces for parking is centrally located and only three blocks from Interstate 15. "Through our strategic and intense marketing, we matched the buyer's need for a long-term stable investment with this fully occupied office building," stated Schendel. "The property has the added value of a long-term credit worthy tenant who wants to remain."

Basen and Schendel's exceptional service and reputation speak volumes when a client returns. "We previously worked with the seller in a buying capacity," stated Basen. "This client came back to us because he knew we would work hard to get the terms and price that he wanted."

Di Cosola Brings Yogurtland to Apple Valley

Victorville, Calif. – Coldwell Banker Commercial continues to expand the selection of delicious dining options in the High Desert with the signing of Yogurtland to the Home Depot Shopping Center in Apple Valley at the intersection of Bear Valley Road and Apple Valley Road, one of the highest grossing retail intersections in the High Desert and boasts a traffic count of an average 57,000 cars a day. Nick Di Cosola, Senior Vice President and Retail specialist of Coldwell Banker Commercial represented the landlord and the tenant.

As an active member of the International Council of Shopping Centers, Di Cosola leveraged this network of site selectors, retail contacts as well as local contacts to market the available space. Di Cosola has brought several eateries over the past couple of years to the Home Depot Shopping Center, the others being Pieology and Jimmy John's.

According to their website Yogurtland is an international franchise chain of frozen yogurt restaurants, their first store opened in Fullerton, Ca 11 years ago. It's the ultimate self-serve frozen yogurt experience where real ingredients make great flavors and more than 200 unique flavors plus an array of toppings.
Di Cosola represented both the landlord and Yogurtland in securing a 5 year lease for the ±1,300 SF space next to Starbucks. This is the second High Desert location for Yogurtland with their first being in Hesperia.

"I am very excited to have brought a frozen yogurt option to Apple Valley," stated Di Cosola, "They will make a great addition and a huge asset to this retail center." He added that all parties involved worked towards the common goal of adding a new tenant to the center and adding another restaurant choice for the Town of Apple Valley. "We were able to focus on the common goal, and we achieved a deal that everyone was happy with. It was a success," Di Cosola said.

Yogurtland recently celebrated their grand opening.

CURRENT CONDITIONS

Housing Market

HIGH DESERT OVERVIEW

ENDING JUNE 2017

$235,000
MEDIAN SOLD PRICE

1,152
HOMES ON THE MARKET

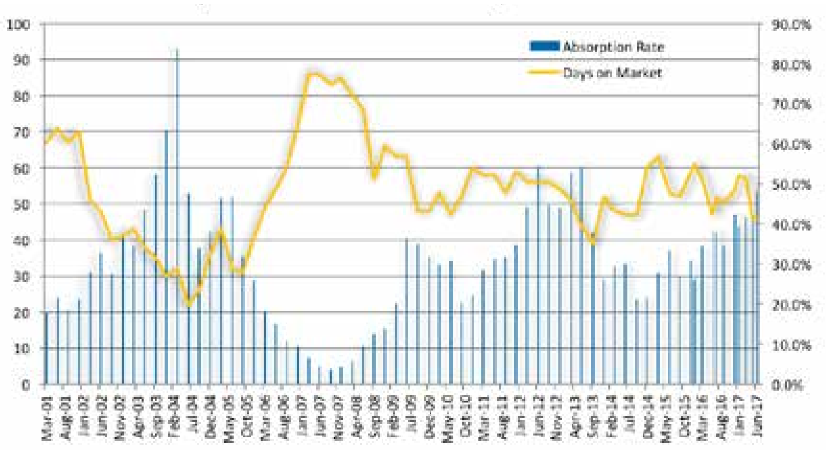
515
HOMES SOLD JUNE 2017

11.4%
PRICE INCREASE YEAR OVER YEAR

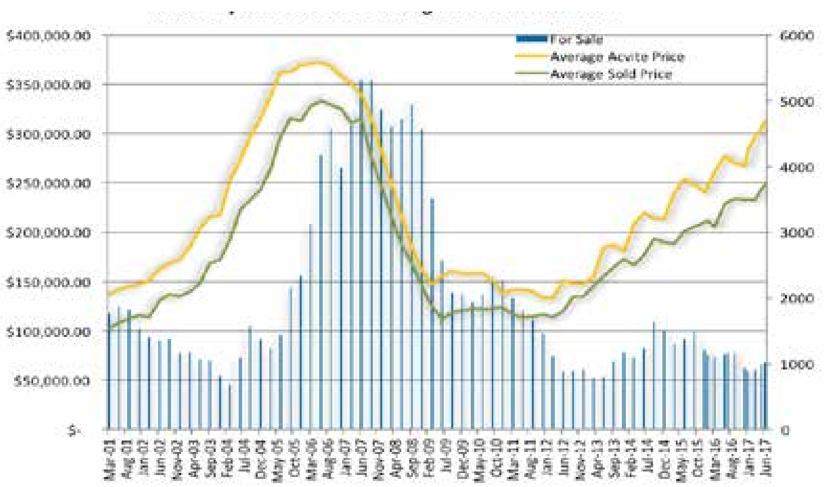
$129.00
AVERAGE PRICE PSF

Housing Inventory in Relation to Sold Units

Days of Inventory in Relation to Absorption



Inventory in Relation to Listing Price & Sold Price



HIGH DESERT DEMOGRAPHICS

REGIONAL POPULATION

445,003

AVERAGE HOUSEHOLD INCOME

$61,494

TRADE POTENTIAL

$5,781,722,348

HOME OWNERSHIP

65.9%

HOUSEHOLDS

136,211

MEDIAN AGE

32.6

Coldwell Banker Commercial | 15500 W Sand St. | Victorville, CA 92392 | 760-684-8000 | www.cbcdesert.com | CalBRE #01857050

PROPERTY MANAGEMENT

Our Property Management Professionals can assist you in any of these services:

- Comprehensive Monthly Reporting
- Monthly Rent Invoicing
- Accounts Receivable & Payable
- Expense Reconciliation
- Budgeting Control & Cost Containment
- Financial Review & Analysis
- Lease Administration & Compliance
- Vendor Service Contract Management
- Tenant Retention
- Document Preparation & Review
- Maintain Property Records and Leases
- Routine Facility Inspections
- Supervision of Maintenance Plan
- Risk Management Programs & Assessment
- Compliance of Environmental Issues
- Emergency Procedures
- Construction Management of Tenant Improvements
- Disaster Recovery Plan
- Preparation and Service of Legal Notices
- Lease Negotiation & Renewal
- Forensic Audit & Property Transition
- Capital & Expense Budget Preparation
- CAM Reconciliations & Budgeting
- Oversee Daily Property Operations
- Fire/Life Safety Oversight
- Receivership Services
- Property Maintenance Oversight
- Risk Management/ Insurance Compliance
- CC&R Management Enforcement
- Ownership Association Participation
- Property Tax Appeals
- Operating Expense & Rental Rate Benchmarking
- Owner/ Tenant Relations
- Legal Eviction Processes & Default Procedures
- Tenant Improvement Oversight

COLDWELL BANKER COMMERCIAL REAL ESTATE SOLUTIONS

2017

Property Management

Coldwell Banker Commercial Victorville, California

The Coldwell Banker Commercial® (CBC®) organization works closely with you to provide comprehensive property management services geared toward reducing expenses and increasing tenant retention. With access to 4,000 colleagues in over 500 CBC offices across the globe, Coldwell Banker Commercial associates have the cutting-edge technology tools, property management expertise and market knowledge to provide you with superior management services. CBC associates serve as the owner's representative throughout the entire project or transaction.

CBC professionals come to their clients as trusted advisors with innovative and profitable ideas and solutions. Every CBC professional is client-focused and results-driven to meet the owner's expectations.

Tenant Retention Tips:

Tip: #11 Improve property energy efficiency

In today's market, efficiency and sustainability are very current issues that more and more tenants are acutely aware of. If your property is inefficient, cold or drafty, a tenant won't want to extend their tenancy. That inefficiency can translate in higher operating costs. There are many federal programs and tax advantages to retrofits of properties that result in efficiencies and reduced operating costs. These will go a long way to helping retain tenants.

Tip: #6 Respect their Space

When landlords meet tenants in their property, be respectful, friendly and informal. Avoid disparaging comments causing them to be unsettled by voicing possible future plans that are adverse to the current tenancy.

Tip: #7 Pro-active problem search

Perform regularly scheduled "preventative maintenance checks." Make sure the tenants are aware of when such things are scheduled. Performing these checks demonstrates a proactive approach as opposed to a "wait and see" and allows you to find issues before they escalate to a stage where they hand in their notice. Always ask if everything is acceptable or if the tenant has any problems.

Tip: #4 Replace a minor item at least once every year

Have a plan to maintain the property on an annual and rotating basis so you are constantly generating a fresh appearance. Keeping up with some of the competing buildings will make a tenant see you care about the property and they will be less inclined to look around for unnecessary reasons. Amortized over time, the minor expenses don't cost that much. Plus, they will be attractive to new tenants, and they increase the value of the space.

Brad Merrell

City of Barstow
Consulting City Engineer

Commercial development in Barstow continues to be strong in mid-year 2016. Construction on Montara Place, a 300,000 square foot center anchored by Super WalMart, has continued at a brisk pace, with opening of the anchor store scheduled for 2017 and construction of out buildings to begin shortly thereafter. Choice Medical Group's new 17,000 square foot office facility is scheduled to open in late summer. Four Asian –themed restaurants totaling 8,500 square feet are in the final stages of construction with occupancy anticipated in late summer. Oggi's Pizza opened for business in June and has experienced strong traffic since the grand opening. Marshall's department store, located adjacent to the recently opened Harbor Freight hardware store, is completing its tenant improvements in preparation for a Fall 2016 opening.

Hotel occupancy rates and restaurant sales growth in the Lenwood Road/I-15 vicinity remain strong as the City has completed review of one new hotel proposal and is in the second round of review of building plans for a second new hotel, with construction expected to commence in late 2016. Negotiations with the State Lands Commission and CalTrans concerning acquisition of property located in the Spanish Trail Specific Plan area are nearing their conclusion and it is expecteded that development of this long-anticipated project will commence in late 2016.

The City of Barstow's Economic Development and Planning Office is available to provide immediate assistance, including market analysis, technical assistance, site identification and preliminary design and introduction to the City's key decision-makers.

Lisa K. LaMere

City of Hesperia
Economic Development Management Analyst

A whirlwind of development activity took place in the City of Hesperia during this past fiscal year and as a result, Hesperia's skyline is noticeably changing. This is clearly evident with the addition of new housing and retail architecture, but perhaps most dramatically with 120' tall cranes raising 74' exhaust stacks characteristic of industrial projects. With more than 385,000 square feet of development in the works in 2016-17, nearly every sector saw signs of progress with site plans being submitted for entitlements, buildings coming out of the ground or ribbon cutting ceremonies.

At the top of the list are the single family resident (SFR) permits for a variety of housing options, including commuter-friendly duplexes, affordable senior apartments, and 1- and 2-story infill homes. SFR permits issued for last fiscal year nearly equaled the total of those issued during the previous three fiscal years, with a 377% increase over FY 2013-14.

Other projects being developed last fiscal year encompassed an industrial user (RedPak), a new charter school (Pathways to College), an entertainment use (Escape This), and a healthcare office (Kaiser) in 8,036 sf of the former Fresh & Easy at Topaz and Main Street.
Retail is still king in Hesperia, however, and last fiscal year saw the addition of many national retailers staking their claim in Hesperia. Open are Famous Footwear, Leslie's Pool Supplies, America's Best Eyeglasses, and others. Planet

Fitness in High Desert Gateway at I-15 and Main Street will open their doors Q3 2017, as will Aldi, a national grocery opening their first High Desert store at Main Street and Escondido, joined by Dollar Tree, followed by Les Schwab's and Wendy's.

Phase II of High Desert Gateway at Cataba and Main began construction in FY 2016-17 with several shops that will open in FY 2017-18, among these the highly anticipated Jimmy John's Gourmet Sandwiches, and several other eateries.

Plans are taking shape for water and sewer to be extended to the four quadrants of Ranchero and I-15 which will open the area for regional commercial development. With an eye toward Ranchero and I-15 becoming a prime retail destination, Economic Development staff is working to see this area become the next freeway-oriented retail location in Hesperia. Construction already has begun at the SEC for a Starbucks and a Union 76.

Anthony Rhoades

Thompson Family Plumbing

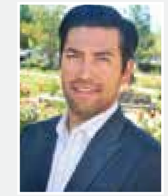
Thompson Family Plumbing is experiencing exponential year-over-year (YOY) growth in completed sales and services. The success of TFP can be attributed to increased population, a growing housing market, as well as new business development policies in the high desert region. In addition, TFP has expanded their services area to encompass the entire Inland Empire area which has increased demand as well.

With increased demand in services, we have been successful in making key additions to Thompson Family Plumbing and we continue to grow our employment. Our company core values allow us to experience growth without losing direction or our identity. One of our core values is to not only contribute to our community through charitable donations, but hire local talent to train as we expand operations.

We are passionate about serving the desert and are glad we can do that through our business and professions. Retaining our talent will allow us to give back and develop future local leadership and future entrepreneurs as well. Our key area, which includes Victorville, Hesperia, Apple Valley, and Adelanto, has a combined population of over 335,000. As we continue to evolve into a voice that can equal those that do not have the potential that the High Desert can present to homeowners and commercial business owners as well.

Key category of growth for Thompson Family Plumbing has been commercial area of the business. With a recovering economy and easing credit requirements, we have seen increased economic development that has provided both direct and indirect business. With our commercial services and offering, it's no surprise that Thompson Family Plumbing has been in high demand. Residential services have also increased and TFP has witnessed increased demand for septic certifications and pre-home sale inspections.

The High Desert Region is unique. Although we are separate cities, we function as a region because of the proximity of each other in comparison to other "down-the-hill" areas. We rely and support one another in order to create a more prosperous and robust region. Give back to the community, provide jobs, and have fun while being the best!.



Orlando Acevedo

Town of Apple Valley
Economic Develpoment Manager

The Apple Valley Choice Energy Program, launched in April, offers Apple Valley businesses and residents lower rates than Southern California Edison, and with a higher/greener renewable content. Stay tuned for more information.

In February, the Town Council took action that clears the way for the development of a 1.35 million square foot Big Lots Distribution Center in the North Apple Valley Industrial Specific Plan area just south of the Walmart Distribution Center. The $115 million-dollar project will bring 400 to 500 jobs to the area, expand infrastructure, and affirm Apple Valley's position as a cost-competitive alternative to the Inland Empire industrial market. Ground breaking is expected in late 2017.

With the opening of the long-awaited Yucca Loma Bridge in May, Mal Riley, developer of the highly successful Jess Ranch Marketplace II/III, has returned to Apple Valley to develop the Quail Ridge Plaza at the NEC of Apple Valley Road and Yucca Loma Road. Located near the strongest median income demographics in the region, the Plaza will be designed as a mixed-use concept including retail, restaurants, office, and a potential residential component.

In June, Jay Jeffs of Jayco Industries, an industry-leading mailbox manufacturer, was announced the Small Business Administration Award Finalist at the 54th Annual SBA Award Luncheon in Anaheim. Jeffs and company are celebrating their 30th year of business in Apple Valley.

The Town Council recently approved several new CDBG funded-initiatives that help small businesses and homeowners, including seed money for a Small Business and Entrepreneurial Incubator Space, an ADA Small Business Loan Improvement Program for help with ADA improvements, and the Residential Rehab Loan Program to enhance the existing housing stock. The Council also carried forward the Apple Seed Small Business Loan Program, providing low-interest financing and leverage for additional private capital.
The Apple Valley Gateway Center, a 10-acre, 80,480 square foot commercial center at the NEC of Interstate 15 and Dale Evans Parkway is now pre-leasing and includes a hotel, retail and restaurant pads.

Apple Valley issued housing starts at a 10-year high as Pulte Homes begins their fourth phase at Sun City and other infill projects get off the ground. Median home values continue year-over-year growth.

Recent store openings include Yogurtland, Rebel Oil Co., Dickey's Barbecue Pit, 99 Cents Only Store, The Galley Fish Tacos, CrossFit One Society, Samaritan Animal Hospital, 3G Tacos, DeeDee's Hobby Emporium, Rusty Bull Roadhouse, and more. Wing Stop, Chase Bank, and a 76 Station top the list of tenants coming soon.

Jesse Flores

City of Adelanto
Economic Development Director

The City with unlimited possibilities is now quickly becoming the City of Progress. Mayor Rich Kerr, and the City Council have attracted economic development and job creation opportunities to the region on a grass root level.

"The City of Adelanto has come a long way in a very short period of time. From outsourcing its Land Use Department to the private sector i.e.,(Planning, Engineering, Building and Safety) to revising its development codes, ordinances, policies and procedures. This clearly demonstrate that we mean business and are truly becoming a business friendly city. "We are no longer waiting for things to happen, we are making things happen" said Mayor Kerr.

"In addition to attracting and embracing all uses of the medical cannabis industry we are breaking ground on industrial, commercial, retail and housing projects. The City of Adelanto is creating its own economy by leveraging all of its existing assets" says Jessie Flores the City's Economic Development Director.

"The City has disrupted the bureaucratic status quo and has truly embraced the private sector. It is businesses and the economic development sector that simulates the economy. We encourage you to come find out for yourself, what we are doing for the residents of the City of Adelanto" says Mayor Kerr.

The City of Adelanto currently has over 1 million square feet of medical cannabis operations underway and is expecting to have over 5 million square feet by the end of year (2017). Cultivation, manufacturing, extraction, transportation and distribution are some of the uses adopted by the City's Ordinances. Dispensaries and Nurseries are some of the most recent industries embraced by the city. Other non-cannabis related projects have recently broken ground such as "Clark Pacific", one of the largest cement precast manufactures in southern California. It's a two-phased construction project expected to create over 500 permanent jobs. The massive project encompass over 110 acres. We are very fortunate that they chose our city to do business in" says Rich Kerr.

Also, Over 250 Housing units are under-way with over 65 homes currently sold. Frontier Communities and D R Horton, two major Southern California housing developers and other housing developments are on the books and on schedule to break ground soon" says Gabriel Elliott, City Manager of Adelanto.

A major Medical Mix Use Development Corridor on 26 acres is another of the city's highlights. It will provide much needed support services, shopping and entertainment to the High Desert Region, Mayor Kerr, said.

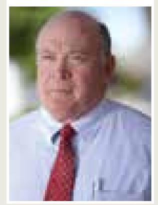
"The City of Adelanto is positioning itself to become the center of attention not only within the State of the California, but on a global scale and we've only just begun", said Jessie Flores, the City's Economic Development Director.

POLITICAL ALERT

Jay Obernolte

State Assemblyman
for California's 33rd District

In early July, Senate Bill 2 was passed out of the California State Senate and will soon be debated in the State Assembly. SB 2 would create a new $75 tax on real estate documents. This tax would be collected on the recording of every real estate instrument with a county Recorder. If enacted into law, the revenue generated from this tax – estimated at $250 million annually – would be dedicated to creating low-income housing programs in urban areas such as San Diego, Los Angeles and the Bay Area. California is in the midst of a housing crisis. We currently rank 49th out of all 50 states in housing units per capita. But SB 2 would only worsen the situation by taxing home buyers and making our already high cost of living in California even more unaffordable. SB 2 is bad for taxpayers, which is why I oppose it.



Robert A. Lovingood

First District Supervisor
San Bernardino County Board of Supervisors

On the economic and infrastructure fronts, the outlook for the region continues to be bright.

The Inland Empire will continue its rapid economic expansion in the next decade, with business growth and employment gains across all major sectors, according to a study by Chmura Economics & Analytics for the San Bernardino County Workforce Development Board. San Bernardino County and the High Desert in particular have what businesses need: Land, access to transportation, a great quality of life and, most important, a strong pipeline of job seekers.

San Bernardino County Assessor-Recorder-Clerk Bob Dutton announced the signing of the 2017 Annual Property Assessment Roll valued at $206.5 billion, which is a 6.1% net increase over 2016. Notably, this is the first time in the County's history that total valuation of property has surpassed $200 billion.

The demand for single-family homes in the Inland Empire has fueled the strongest building activity in nearly a decade, according to UC Riverside. Single-family home construction in the region hit its highest level in 9 years.

Dr. Chris Thornburg, director of the University of California Riverside's Center for Economic Forecasting, shared during the recent High Desert Economic Summit that he is optimistic about the region. The High Desert is well positioned in terms of labor, personal income and retail sales.

We are seeing continued progress on infrastructure. The Interstate 15-215 interchange project is complete with four lanes in each direction of I-15. The project relieves bottlenecks and added truck by-pass lanes – an improvement welcomed by High Desert logistics firms. This follows the new I-15 interchanges at Ranchero Road in Hesperia and La Mesa/Nisqualli in Victorville.

Plans are moving ahead to widen US 395 between Palmdale Road and Chamberlain Way in Adelanto. The project increases the highway from two lanes to four lanes as well as turn lanes and signals at various intersections. Future phases call for widening of Highway 395 between I-15 and Palmdale Road as well as between Chamberlain Way and Desert Flower Road.

The County Board of Supervisors approved an agreement to partner with Victorville to reconstruct 1.85 miles of Luna Road within the County and City. This kind of County-City partnership is a model to improve local roads. The Board of Supervisors also approved the first phase to widen Ranchero Road in the Hesperia area. The project will widen Ranchero Road from two lanes to five lanes, from just east of Mariposa Road east to Topaz Avenue in the unincorporated area of Hesperia. The project will also widen, reconstruct and re-profile Ranchero Road, from Topaz Avenue east to Seventh Avenue in the City of Hesperia.

From the economy to infrastructure, we are seeing strong growth here in San Bernardino County.

Sophie L. Smith

City of Victorville
Director of Economic Development

Victorville has continued to experience strong growth for the High Desert in the first half of 2017. With an increasing population of 119,098 residents, our city continues to attract new retailers, manufacturers, and industrial development.

Previously, in September 2016, the City announced 30,000 square feet of restaurant space was approved by the Victorville Planning Commission to set the stage for further development of Restaurant Row, which is located along Interstate-15 at Bear Valley Road. In mid-February 2017, the City announced that Cracker Barrel Old Country Store submitted plans to operate its first California location in Victorville. The southern-themed restaurant and gift shop becomes the newest expansion to the City's Restaurant Row. Cracker Barrel will be situated on 1.31 acres and the building space will encompass 9,550 square feet of the 30,000 square foot expansion previously announced. Of the remaining square footage, retailers such as Starbucks, Nekter Juice, Which Which Sandwiches, Pieology, Ono Hawaiian BBQ, Café Rio, and the Habit Burger are being developed. The new developments are situated adjacent and south of the first BJ's Restaurant and Brewhouse in the Victor Valley, which opened its doors in early 2016.

Other retail announcements in early 2017 included Sit'N Sleep's grand opening for its 1,300 square foot store located on Bear Valley Road near the Mall at Victor Valley. In May 2017, Harbor Freight Tools, submitted tenant improvement plans to occupy an existing building on the corner of La Paz Drive and Seventh Street. The Calabasas-based company will move into an existing 15,000-square-foot building in the shopping center currently anchored by the High Desert Indoor Swap Meet and the 99 Cents Only Store. As previously reported, at Desert Plazas shopping center located along Interstate 15 at the Roy Rogers exit, Krispy Kreme Doughnuts opened in December 2016. Desert Plazas is planned for ultimate build-out of 800,000 square feet, anchored by Home Depot. The Plazas is also home to existing tenants WaBa Grill, Dickey's Barbeque Pit, in 2015 to existing tenants such as In-N-Out Burger, Papa John's Pizza, Winco Foods and Wells Fargo

In the specialty retail arena, RAM Truck Center opened its doors on March 5, 2017 at the AutoPark at Valley Center.

Southwest Airlines shoots a commercial at Southern California Logistics Airport.

The 7,261 square foot facility sits on approximately 2.66 acres. The dealership offers heavy duty RAM trucks such as the 1500, 2500 and 3500 models. The brand has been named Motor Trend Magazine's truck of the year five times. Additionally, Valley Hi-Toyota is undergoing a major renovation and expansion to its existing dealership. The dealership is expanding their 19,762 square foot showroom to 39,835 square feet. The expansion is expected to be complete by the end of summer

Community Perspective Articles continued on page 39

Steven Thompson Closes $6,000,000 Industrial Deal

Victorville, Calif. – Coldwell Banker Commercial Executive Vice President, Nick Di Cosola and Vice President, Steven Thompson, facilitated the sale of an off market ±48,000 SF industrial property for $6,000,000 in Adelanto, California. The Coldwell Banker Commercial team worked quickly and efficiently to ensure both parties were extremely pleased with the service, timeliness and terms of the sale.

Di Cosola and Thompson utilized their extensive list of contacts and investors in an effort to locate the right buyer for the property. Located on Muskrat Road in Adelanto, the 48,000 SF building is situated on 4.68 acres, and located in Adelanto's Cannabis Cultivation Zone. The easy access to Highway 395 and Interstate 15 as well as the close proximity to the Southern California Logistics Airport, contributed immensely to the desirability of this unique property.

The property generated significant interest through Coldwell Banker Commercial's network of clientele and the transaction was completed in just 45 days from the initial offering to close of escrow. "This highly desired property sold surprisingly fast. Maintaining communication with clients, both past and present, is invaluable. Understanding our client's need and desires allowed us to connect both buyer and seller for a successful transaction," stated Thompson.

The seller, a long-standing client of Coldwell Banker Commercial, had success with the firm in the past thanks to Coldwell Banker Commercial's unique marketing platform, and results-driven dedicated professionals. "The biggest compliments are repeat clients and referrals. This allows us to really see we've been doing great work while keeping our clients satisfied. There are numerous approaches when it comes to selling high dollar commercial properties and it's imperative to understand your clients and the market to best curtail your plan to each specific listing. There is no one size fits all approach when it comes to commercial real estate and we attribute our success to truly understanding our clients and their goals," stated Di Cosola.

Cover Article cont. from page 1

expansion cycle of the early 2000's, primarily related to speculative building. While capital was relatively easy to obtain in the prior cycle, lenders now require a significant portion of a development to be pre-leased prior to making a financial commitment. As a result, new commercial developments have been limited to owner occupied, or projects with a majority of the space pre-leased, thus reducing risk to the lender.

The High Desert real estate market is in a conservative expansion cycle, with demand outweighing new deliveries. An easing of lending requirements and monetary policy by the federal government could lend to an increase in speculative building, however, no significant discussions have emerged to indicate an easing in the credit markets will occur in the near future. As such, I believe the High Desert will enjoy a healthy expansion cycle through 2017 and into 2018.

Market Pulse Cont. from page 36

2017. Upon completion, the new facility will feature 47,643 square feet of building space. In 2016, the Auto Park at Valley Center saw the desert Alfa Romeo franchise added as a co-brand to the existing desertFIAT dealership.

The hotel sector is also growing. Currently under construction on the west side of I-15, just south of the Nisqualli/La Mesa interchange is a 106-room Hilton Home 2 Suites. Further north along the 15 Freeway on Mariposa Road and across from the Southwest Gas facility, Mariposa Land Development, LLC submitted plans to build a four-story, 85-room, Hampton Inn Hotel that will be located on a 1.56-acre lot.

At Southern California Logistics Airport, on March 22, 2017, the City and Stirling Development celebrated the wall-raising on Distribution Center 18 (DC 18), a new 370,023-square-foot-industrial facility. Plastipak Packaging, Inc., currently an SCLA tenant and a world leader in the manufacturing of high-quality, rigid plastic containers for the food, beverage and consumer product industries, has leased half of the facility, while Rubbermaid, another existing SCLA tenant, has leased the other half of the building. On the aviation side, in April 2017, Otto Aviation Group entered into an agreement with SCLA for Building 685, Unit C to facilitate a flight test program for a small aircraft. Otto anticipates entering the Federal Aviation Administration Certification Program, which could ultimately lead to 150 jobs.

Industrial Report cont. from page 9

approximately 2.9%, which is low.

The Asking Rents depicted in **Figure 6** are the sum of the NNN Base Rent and the NNN Charges for Property Taxes, Insurance, and Common Area Maintenance (CAM). The rents reflect the average of all the properties available for lease as of the end of each year and as such reflect the location, quality and condition of the properties listed as well a current market trends. Because the number of properties listed for lease in the High Desert is substantially greater than in any one city, reported rents for High Desert are more stable and provide a better estimate of rent trends for the region. Average Rents for the High Desert increased from a low of $0.38 per SF in 2014 to $0.91 per SF in the 2nd Quarter 2017. Industrial rents have increased significantly because of an increase in demand driven by the cultivation of cannabis in Adelanto and the lack of supply coupled with limited new construction. Rents in Apple Valley increased $0.22 over the last 3 years; Barstow's rents remained unchanged at $0.40 per SF; and average rents in Hesperia increased by $0.13 per SF; Asking rents in Victorville increased by 40% over the 3 years to $0.93 per SF. Buildings leased to cannabis growers are commanding between $2.00 and $3.00 per SF per month. Traditional industrial users are looking at effective rents ranging between $0.60 to $0.80 per SF. Nevertheless, actual effective rents are still below the level required to support new construction; the gap is decreasing and may soon justify speculative development for non-cannabis industrial tenants.

Industrial Property Sales

Figure 7 depicts statistics related to the sale of industrial buildings in the High Desert during the first half of 2017. According to Costar, there were 13 sales, of which 1 involved an industrial flex building that sold for $395,000. The remaining 12 sales in the High Desert involved industrial buildings. There were 6 sales involving a price less than $500,000. The total dollar volume for this category was $1,785,500; and the average sales price was $297,583. There were 4 sales with a sales price between $500,000 and $1,499,999. The total dollar volume for this group was $3,135,000. The Average Price was $783,750. The remaining 3 sales involved a price between $1,500,000 and $4,999,999. The average sales price in this group was $2,291,667. Unlike 2016 there were no sales in the $5,000,000 to $9,999,999 or in the above 10 million categories.

One involved a 24,000 SF industrial building at 16980 Racoon Ave in the City of Adelanto. The Sales Price was $2,625,000 or $109.38 per SF. The date of Sale was April 26, 2017. This was the second highest industrial sales price in the High Desert during the first 6 months of 2017. The property was in the Medical Cannabis Cultivation zone. The land area was 4.71 acres so there was extra land that could be used for the development of additional buildings. The transaction with the highest sales price involved a 9,450 SF industrial building on a 0.94-acre parcel also in the Medical Cannabis Cultivation Zone. The address of the property was 16224 Koala Road in Adelanto. The sales price was $2,650,000 or $280.42 per SF of building floor area. The date of sale was June 9, 2017.

The sales with the third highest price involved the sale of a 26,720 SF Warehouse building at 13815 Amargosa Road in the City of Victorville. The purchase price was $1,600,000, which was $59.88 per SF. The date of sales was June 26, 2017. The owner/ user will occupy approximately half the space.

The total consideration for all 13 transactions was $11,795,500 The median building size was 8,588 SF. The median Sales Price was $500,000; and the median sales price per SF was $68.63. The price per SF ranged from $45.21 to $280.42.

Conclusions

We are still of the opinion big box tenants are likely to absorb between 500,000 and 2,000,000 SF for warehousing, distribution and manufacturing operations in each of the next five years provided space is available and the supply of industrial space is not drastically constrained by CEQA related litigation.

Over the next ten to twenty years, land prices and therefore rent levels in the Los Angeles Basin will increase sufficiently to cause a substantial shift in the demand for industrial demand to the High Desert. This would be driven by the lack of raw land zoned for industrial uses in the Los Angeles Basin.

There is likely to be a substantial increase in the demand for industrial space in the City of Adelanto due to the cultivation of cannabis for medical use and its distribution provided the federal government does not institute policies to curtail such activity.

The substantial increase in the value of industrial buildings and effective rents within the cultivation zone is expected to cause more traditional industrial tenants to relocate out of the Cannabis Cultivation zones to other industrial areas in the City of Adelanto and in other cities in the High Desert. The overall increase in the demand for industrial space in the High Desert has already caused industrial rents and building values to increase in adjacent cities.

The rent level for non-cannabis related industrial tenants is expected to increase over time thus making it economically viable to develop industrial space for tenants not associated with the cultivation or distribution of cannabis.

Multi-Family Specialists Basen & Schendel Sells Prime Hesperia Apartment Building for $1M

Victorville, Calif. – Bob Basen and Jerrad Schendel of Coldwell Banker Commercial have coordinated the sale of a prime 12-unit apartment property located on Maple Avenue in Hesperia for a sales price of $1,070,000, the highest price in this category in Hesperia so far for 2017. Representing both the buyer and seller of the property, it was important to Basen and Schendel to get both clients an actionable concept to deliver the best results for each client's goals.

Coldwell Banker Commercial Vice President, Bob Basen and Senior Client Advisor, Jerrad Schendel, worked diligently to market the property a well-maintained and fully occupied 12 unit apartment building located with easy access to Interstate 15 and future development possibilities on the 2.5-acre property were excellent points highlighted in their marketing campaign to generate multiple offers.

"Our presence as Investment specialists in the in the High Desert, along with our high volume of sales and transactions, prompted the buyer to seek out our service," stated Basen. "The property was exactly what he was looking for, and we were able to make it happen."

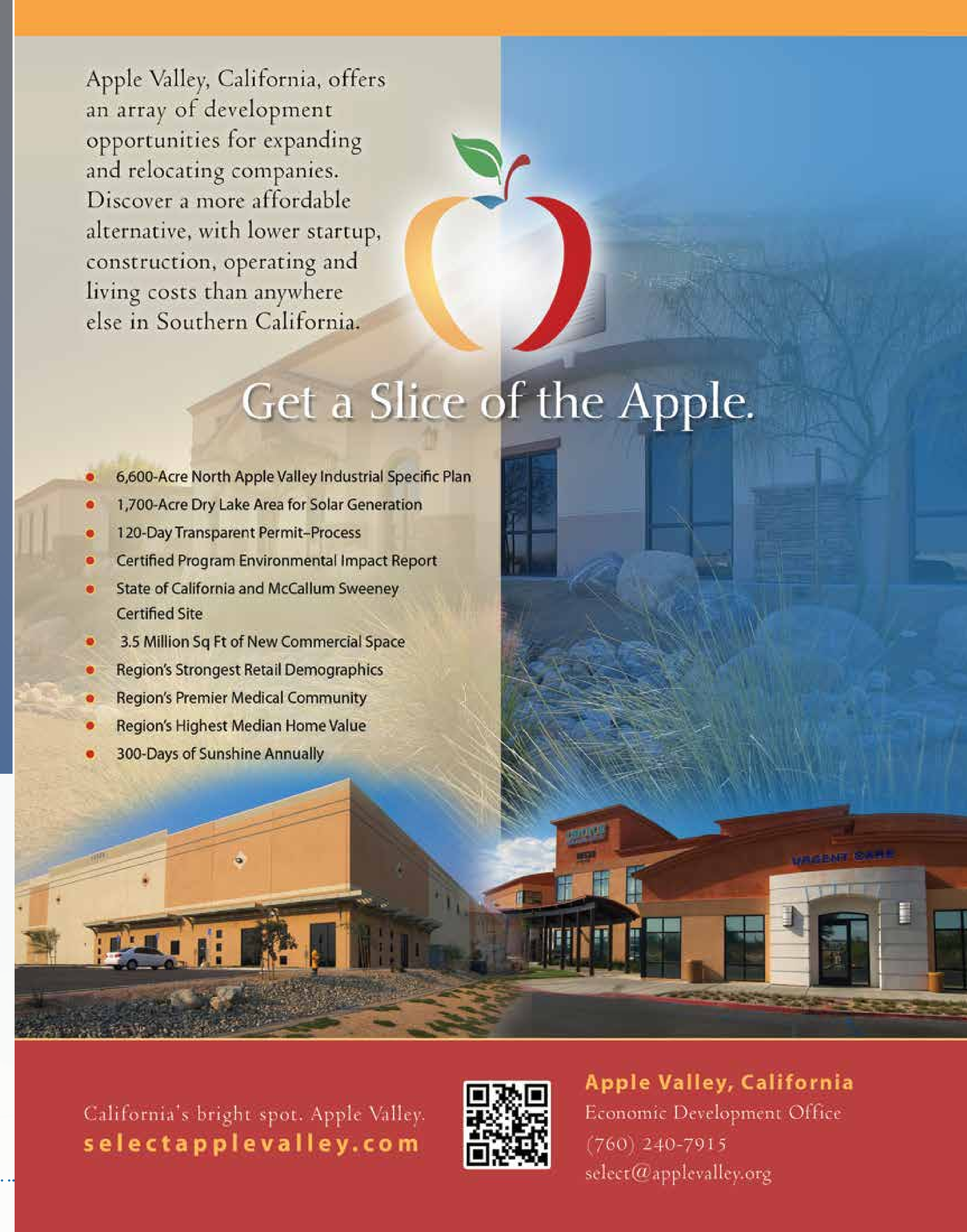
Basen and Schendel made sure both the buyer and seller received outstanding service. "We ended up finding a lender with better interest rates and terms than the buyer initially wanted, causing the buyer's investment to have a better return off the bat without costing the seller any additional money," stated Schendel.

Di Cosola Brings Another T-Mobile Location to the High Desert

Victorville, Calif. – Coldwell Banker Commercial Vice President Bob Basen along Victorville, Calif. – As the High Desert's largest commercial real estate agency, Coldwell Banker Commercial is also delivering a substantial amount of retail growth to the community. Coldwell Banker Commercial Senior Vice President and Retail Specialist, Nick Di Cosola, has coordinated the lease of a 1,300 square foot suite for T-Mobile's second location in Apple Valley and the fourth High Desert location. Located at the Home Depot Center in Apple Valley, situated near Starbucks, Pieology and Yogurtland, T-Mobile's new location will offer excellent visibility from the highly traveled intersection of Bear Valley Road & Apple Valley Road with 57,000 cars per day. With many other major retailers nearby, that intersection also boasts excellent foot traffic for tenants of the popular retail center.

Longtime agent for The Home Depot Shopping Center, Di Cosola represented the landlord, securing a 5-year lease for the prime location. "This was an excellent opportunity and location for T-Mobile. This intersection offers easy access for Apple Valley, Victorville and Hesperia residents. This center has a great combination of both national retailers as well as private and locally owned businesses. It's great to see both types of retailers flourishing in one diverse location. I enjoy working with both the private business owners as well as the national retailers and assisting them in finding them locations that are best situated for success," stated Di Cosola.

Many of Di Cosola's clients such as Yogurtland, Jimmy John's Gourmet Sandwiches and Pieology just to name a few have experienced great success in the highly sought retail center which is now fully leased. "Nick has had tremendous success with bringing new tenants to that center. His ability to guide clients in finding the best location for their needs truly sets him apart in the retail sector. We've seen many businesses succeed in this center and the traffic and visibility are truly first-rate," stated Coldwell Banker Commercial President, Jason Lamoreaux.



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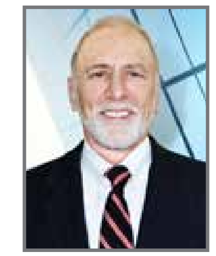
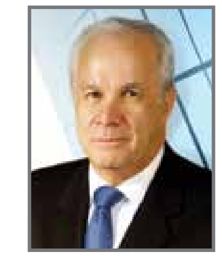
Jason Lamoreaux
President / Broker

Chris Lamoreaux
Chief Operations Officer



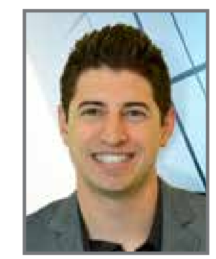
Ron Barbieri
Senior Vice President



Nick Di Cosola
Senior Vice President

Bob Basen
Vice President

Steven Thompson
Vice President



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Katie Holmes
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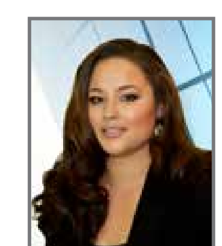
Michelle Whitman
Marketing Coordinator

Cesar Garcia
Marketing Coordinator

Gail Piper
Brokerage Services

Rebecca Nieto
Office Mgr & Bookkeeper

Tracy McKinley
Accounting Mgr



Ashlee Wardlow
Director of Prop Mgmt

Becky Lewis
Property Mgr

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