COLDWELL BANKER COMMERCIAL
REAL ESTATE SOLUTIONS

2018 HIGH DESERT MARKET WATCH

Coldwell Banker Commercial Victorville, California

Jason Lamoreaux
President / Broker

MARKET SNAPSHOT

Vacancy
Industrial: 8.0%
Office: 5.5%
Retail: 9.2%

Lease Rates PSF/PM
Industrial: $0.96
Office: $1.35
Retail: $1.05

Existing Space
Industrial: 19,397,841
Office: 5,776,311
Retail: 18,010,083

Steady As She Goes

JASON LAMOREAUX | President, Coldwell Banker Commercial

An old English maritime term, Steady as She Goes, is an order for a helmsman to keep a ship's current course; steer as needed to continue the current direction. Steady as She Goes best illustrates the High Desert's real estate climate in 2017, with strong tail winds driving positive gains and expansion in most sectors, while on course to continue through 2018.

While most southern California real estate markets have fully recovered and either returned to or surpassed values established at the height of the previous real estate boom, the High Desert has not achieved the high-water mark set in 2006. Although the High Desert real estate market may be late to port, it continues to yield year-over-year gains and has significant upside potential.

With strong momentum from 2016 carrying into 2017, the High Desert's real estate market experienced strong gains in appreciation, along with increased new deliveries of residential and commercial developments. Additionally, lease rates in all commercial sectors increased year-over-year, most notably in the Industrial segment. Absorption of vacant space in 2017 increased in the Retail and Industrial Sector, by 287,490 square feet and 92,021 square feet respectively. However, the Office sector experienced negative absorption of 29,948 square feet, primarily related to consolidation and space efficiency.

The residential sector experienced gains in both the Multi-Family and Single-Family Residence categories. Although Multi-Family sales volume declined 4.7% in 2017, transaction volume increased 68.4% year-over-year, with the average per square foot increasing 21.7%. The average per unit price in 2017 was $64,123, a 4.7% decline over 2016; a result of smaller units selling in 2017 versus 2016. New Multi-Family development experienced a resurgence in 2018 with large communities being delivered, and under construction in Hesperia, California.

The median sales price for a Single-Family Residence property in 2017 was $232,000, a 10.5% increase over 2016, while the market experienced a 4.4% increase in transactional volume. With demand increasing, new Single-Family Residence listings were more efficient, selling quicker as the days on market declined 16% in 2017, averaging 50 days on market compared to 58 days in 2016.

New housing starts increased 17.4% in 2017 as regional and national home builders ramped up production, and acquired additional land to meet demand. Affordability has fueled the High Desert's housing market during expansion cycles and continues to drive demand in the High Desert as the housing affordability index, which measures a buyer's ability to purchase a home in relation to their income, continues to deteriorate in the lower

Market Update continued on page 45

IN THIS ISSUE

BUSINESS BRIEFS

- A ±20,300 SF industrial building located at 16585 Beaver Road, Adelanto, sold for $5,170,000; both parties were represented by Steven Thompson.
- A 48-unit multi-family property in Barstow sold for $2,150,000 with Bob Basen and Jerrad Schendel representing both the seller and buyer.
- Steven Thompson, Ron Barbieri and Nick Di Cosola represented the seller of 51 acres of vacant land on Banta Road, Lucerne Valley, purchased by an investor.
- The buyer of a $2,300,000 multi-tenant retail shopping center at 4050 Phelan Road in Phelan was represented by Bob Basen and Jerrad Schendel, with Jason Lamoreaux representing seller.
- Facilitating the $1,500,000 sale of a ±6,271 SF office space with an additional ±8,618 SF warehouse at 15401 Anacapa Road, Victorville. Steven Thompson and Bob Basen represented the seller.
- Bob Basen and Jerrad Schendel represented both buyer and seller in the $1,100,000 sale of a ±14,370 single tenant building in Victorville on Valley Center Drive.
- Ron Barbieri and Nick Di Cosola represented both seller and buyer of 7.85 acres of land on Enterprise Way, Victorville with a sales price of $332,000.
- Representing both sides, Bob Basen and Jerrad Schendel negotiated the $1,100,000 sale of an 18-unit multi-family property located at 16518 Avalon Avenue in Victorville.
- Steven Thompson represented the seller in the sale of a 1-acre parcel of land on Jasmine Street in Victorville for future medical office development with a sales price of $348,000.
- The seller of 7.49 acres of vacant industrial land on Ottawa Road in Victorville was represented by Nick Di Cosola and Ron Barbieri in a $407,830 transaction.
- Bob Basen and Jerrad Schendel represented both buyer and seller of a 4-unit multi-family property located at 12363 Redwing Road, Apple Valley with a sales price of $350,000.
- Representing both sides of the 6-unit multi-family portfolio listing for 14868 & 14869 Rama Drive, 14870 & 14873, and 16225-16227 Victor Street in Victorville, Bob Basen and Jerrad Schendel facilitated a total sales transaction of $450,000.
- Coordinating a sale price of $1,150,000, Bob Basen and Jerrad Schendel represented the buyer in the sale of a 10-unit multi-family property at 16348 Sequoia Avenue, Hesperia.
- Jeffrey Kim represented the seller, with Bob Basen and Jerrad Schendel representing the buyer of a $220,000 sale of a ±3,760 SF office building located 14928 Circle Drive, Victorville, CA.
- Negotiating for the seller, Bob Basen and Jerrad Schendel facilitated the sale of a fourplex located at 15566 Tonekai Road, Apple Valley with a sales price of $329,900.
- Steven Thompson represented both parties in the lease of 18838 US Highway 18, Suite #1, Apple Valley to Allstate Insurance.
- Bob Basen and Jerrad Schendel represented the seller of a 4-unit multi-family property at 15578 Toneki Road, Apple Valley with a sales price of $362,500.
- Representing both the tenant and the landlord of a ±2,752 SF space at 18343 US Highway 18, Suite #200-202, Apple Valley, Steven Thompson secured a 5-year lease for the Administration Office for Vascular Association of Southern California Medical.
- Bob Basen and Jerrad Schendel transacted a $120,000 sale for the seller of a vacant 1 acre parcel of commercial land located at 15736 Main Street, Hesperia, with Jason Lamoreaux representing the buyer investor.
- Jeffrey Kim represented the seller of a 4-unit multi-family property located at 15754 Tern Road, Victorville with a sales price of $350,000.
- Steven Thompson represented the tenant, The Camp Transformation Center, for the lease of a ±10,000 SF warehouse at 17205 Eucalyptus Street, #A2, Hesperia.
- Representing both parties, Bob Basen and Jerrad Schendel finalized the sale of a 4-unit multi-family property at 15856 Chehalis Road, Apple Valley with a sales price of $350,000.

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- Bob Basen and Jerrad Schendel represented the seller on the $13,000 sale of 0.27 acres of residential vacant land on 15938 Olive Street, Hesperia.
- Steven Thompson negotiated the lease for both parties at 18838 US Highway 18, Suite #5, Apple Valley for Covivitas.
- Representing both buyer and seller of a large multi-family property on Apple Valley Road in Apple Valley, Bob Basen and Jerrad Schendel secured a sales price of $1,455,000.
- Jason Lamoreaux represented the landlord to facilitate a lease of an ±8,000 SF medical office to Molina Health Care at 1151 E Walnut Street, Ontario.
- Both parties were represented by Bob Basen and Jerrad Schendel in the $350,000 sale of a 4-unit multi-family property located at 21385 Klamath Road, Apple Valley.
- Nick Di Cosola facilitated a 5-year lease for the expansion of T-Mobile located at 12218 Apple Valley Road, Suite 106, Apple Valley.
- Jerrad Schendel and Bob Basen represented the seller of a ±4,225 SF commercial building located on E. Main Street in Barstow, securing a sales price of $135,000 from an investor.
- Nick Di Cosola, Ron Barbieri and Steven Thompson represented both the landlord and the tenant for the lease with WeNo Manufacturing of ±13,426 SF of office space with warehouse located at 15375 Anacapa Road, Victorville.
- Jerrad Schendel and Bob Basen represented the seller of a 2-unit multi-family property on Colonial Drive, Barstow with a sales price of $95,000.
- Steven Thompson and Nick Di Cosola negotiated the lease for Cooper & Strop Hair Salon at 13605 Bear Valley Road, Suite 104, Victorville, the tenant's 3rd location.
- On The Rise foster care expanded to 14174 Green Tree Boulevard, Suites B & C, in Victorville, represented by Bob Basen and Jerrad Schendel.
- Steven Thompson and Nicholas Di Cosola represented both parties in the lease for Priority Mortgage at 15382 W. Sage Street, Suites 103 & 104, in Victorville.
- Nick Di Cosola represented the tenant in relocating Desert Rojean to 15500 W. Sand Street, #5 in Victorville, with Steven Thompson representing the landlord.
- Representing both landlord and tenant, Steven Thompson secured a lease of a ±1,250 SF space for Pet Grooming at 18838 US Highway 18, Suite #14, Apple Valley.
- Facilitated with a lease negotiated by Jerrad Schendel, Barstow Unified School District now has a new facility at 720 E. Main Street, Barstow.
- Steven Thompson represented both landlord and tenant to establish Vital Experiences Counseling, a new business at 15500 W. Sand Street, Suite #4 in Victorville.
- Bob Basen and Jerrad Schendel represented the seller of 0.67 acres of multi-family zoned vacant land on Carlisle Road in Apple Valley with a sales price of $24,000.

MULTI-FAMILY

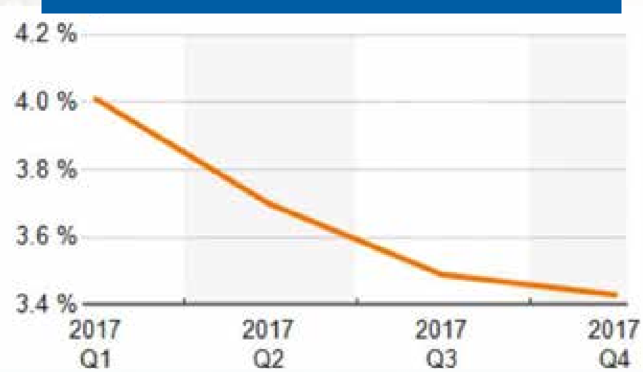
5 YEAR SALES VOLUME

**

EFFECTIVE RENT PER SF

OCCUPANCY RATE

VACANCY RATE



EFFECTIVE RENT PER UNIT

**Data provided by CoStar*

*All information provided by REIS, Costar and Country Records.
**Includes One Portfolio Sale

Multi-Family Market Watch

Coldwell Banker Commercial Victorville, California

Bob Basen
Vice President

Jerrad Schendel
Senior Client Advisor

Vacancy

Vacancy rates trended downward through the end of 2017

Absorption

With minimal new deliveries, absorption was slightly positive

Price Per SF

PSF prices continued to rise throughout 2017

Rents and Property Values on the Rise

Bob Basen and Jerrad Schendel

In our 2017 mid-year report we asked if the Ceiling had been reached and rightfully predicted that it had not. Strong rent growth created by lack of inventory and a growing tenant base continues to give the apartment market room to grow. This continued growth in the Victor Valley apartment market has attracted both novice and professional investors from all over Southern California to reap the benefits.

The market activity has also benefited existing apartment owners as well. Because the majority of purchases in 2017 were "Value Add" purchases, those investors have made the needed capital improvements to their newly acquired properties driving up the market rents which ultimately has benefited all apartment owners and developers in the Victor Valley.

The upward trends that we have experienced since 2008 are a direct result of vacancy rates continued year over year decline along with the steady increases in rental rates. In 2017 the Victor Valley had an average 1.3% annual rent growth which was higher than both the United States average and the lower Inland Empire which only generated 0.9% growth during that same time period.

In conjunction with the currently profitable rental rates, buyers' interest has also been piqued because of the uncertainty of future interest rates and future tax plans, reinforcing the "now is the time to buy" mentality. These conditions have squeezed CAP rates, dipping to the current low 6% average, which although low for the Victor Valley, is a bargain compared to CAP rates in L.A. and Orange County which have dipped into the 3-4% range and in some cases lower.

The current high demand conditions we are experiencing have created multiple offer situations which have resulted in substantially reduced marketing times. The other phenomenon that these market conditions have created is the "off market" transaction. Many of the current sale transactions are "off market" transactions that are never seen on traditional marketing platforms. Professional investors are aware of "off market" opportunities and keep in constant contact with their Brokers to ensure access to these properties.

Apartment developers have also recognized the opportunities created by the low inventory and low CAP rates in the Victor Valley. The recent start of a two-phase 192-unit age restricted apartment complex and a 200-unit market rate apartment complex in Hesperia are the result. There are several other large projects on the drawing board as well in Victorville, Hesperia and Adelanto that you may see breaking ground in late 2018 and Apple Valley is currently in the process of redefining their current apartment building standards to participate in the new interest in developing apartments, particularly larger complexes.

These new apartment projects will increase inventory which will temper the long running trend in rising apartment rents, but in the long run, the newer, larger apartment complexes consistently get the highest rents per square foot in the region and will shore up the rents for the predominantly older smaller apartment complexes in the High Desert.
Current apartment owners, to maximize the value of their asset, will be well advised to ensure they are keeping their properties well-maintained and rented at current market rates. A quarterly rental survey is suggested as rental rates have continued to grow significantly in the last 18 months and forecasts show rental growth continuing in 2018.

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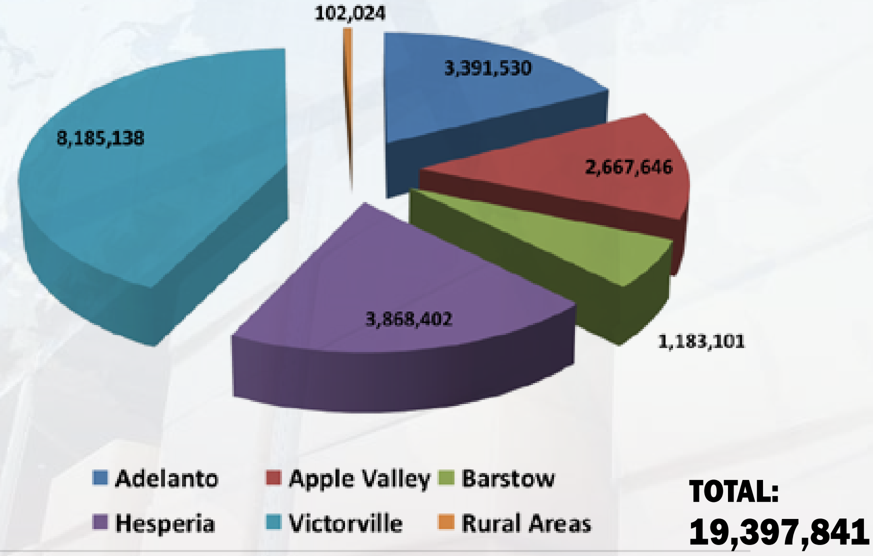
INDUSTRIAL

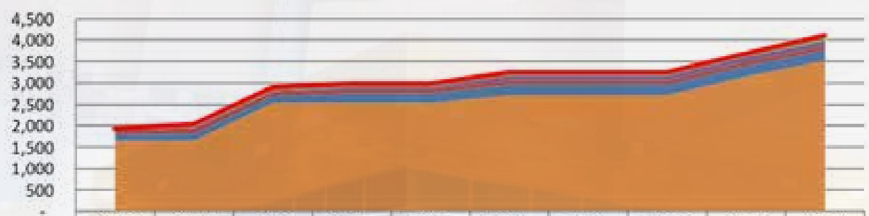
Industrial Inventory by City in the High Desert as of End of 2017

Figure 1



High Desert Industrial Inventory by City from 2006 - 2017

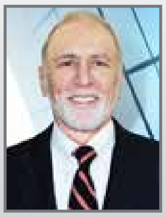
Figure 2



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Adelanto	20	72	72	72	72	79	79	79	79	112
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	152	152	227	227	235	235	235	235	245
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	2,034	2,900	2,975	2,975	3,242	3,242	3,242	3,687	4,100

Industrial Market Watch

Coldwell Banker Commercial Victorville, California



Ron Barbieri
Senior Vice President

Steven Thompson
Vice President

Vacancy

Vacancy Rates increased to 8.0% in 2017 from 6.5% in 2016

Absorption

Net absorption declined to 92,000 SF in 2017 from 248,000 in 2016

Lease Rates

Lease Rates increased to $0.96 per SF per Month in 2017

Warehousing, Manufacturing and Cultivation Will Likely Be the Economic Engine of the High Desert Going Forward

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

In January of 2018, Big Lots started construction on its 1.35 million SF warehouse and distribution facility adjacent to the Walmart Distribution Center in the Town of Apple Valley. This will initially add an estimated 500 base employment jobs to the High Desert, which would create an equal number of secondary employment positions. The creation of 1,000 jobs will support an additional 600 to 700 households and increase the demand for an equal number of housing units in the High Desert. Similarly, 600,000 SF of industrial space used for cultivating cannabis in Adelanto would generate 500 base employment jobs and an equal number of secondary employment jobs for the region. This would also increase the demand for housing by 600 to 700 units. Over the last two decades the increase in the number of individuals that live in the High Desert and commute to the Los Angeles Basin for work has been the primary driver of population growth in the High Desert. While the number of people that commute to the Los Angeles Basin is expected to increase over the next two decades, it is expected to become less of a growth factor than the expansion of the industrial base in the High Desert.

The Inventory of Industrial Space

As of June 2017, there was 19,397,841 SF of space in 926 industrial buildings in 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 857,000 SF of industrial space was delivered over the last 4 years, of which 95% was at SCLA in the City of Victorville. The City of Adelanto completed 32,700 SF of building floor area, which represented 7.9% of the additions to the industrial space in the High Desert. As of the end of 2017 CoStar, the largest commercial real estate information firm in the U.S., reported another 672,000 SF under construction. While this is technically correct because the site work for all the buildings has started, only one of the 120,000 SF structures was under construction at year-end. There are more industrial projects in the City of Adelanto in the planning stage and several existing buildings are being renovated to accommodate the cultivation of cannabis. The City of Adelanto accounted for 98% of the space under construction. Almost all the industrial development in Adelanto is for the cultivation of cannabis for medical purposes. Preliminary estimates suggest a 10,000 SF industrial building used for the cultivation of cannabis would add between 8 and 10 base employment jobs. Therefore, the industrial space currently under construction is expected to add 600 jobs to the base employment of the High Desert when completed. 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 in 2017; nor were there any projects under construction in unincorporated areas at year-end. However, construction of the 1,350,000 SF Big Lots distribution facility in Apple Valley began January of 2018 and is expected to be completed in the 3rd Quarter of 2018.

Most deliveries of industrial space in 2017 were 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. A substantial amount of industrial space will also be delivered in the Town of Apple Valley and in the City of Adelanto in 2018.

During the last five years, the space constructed at SCLA was preleased to creditworthy industrial tenants. Stirling Development, the developer of 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 4-year period ending with 4th Quarter 2017, 814,783

SF or 95% was delivered in structures having 50,000 or more square feet of floor area. There were no deliveries of buildings between 25,000 SF and 49,999 SF; however, two buildings totaling 57,925 SF were under construction. Buildings between 10,000 and 24,999 SF accounted for 32,700 SF or 2.1% 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 development within its 5,500-acre industrial park in North Apple Valley, mostly around the 1,250,000 SF Walmart distribution center and the 1,350,000 SF Big Lots warehouse and distribution facility. The completion of the proposed Crosstown Freeway (E-220), which would connect Victorville, The Town of Apple Valley and Adelanto with Palmdale and Lancaster, 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 county is 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. Additionally, the City of Hesperia also has rail served industrial land on G Street north of Live Oak Street that could accommodate big box users. In the City of Adelanto, developers and users have been purchasing buildings and lots on which to renovate or develop buildings for cultivating cannabis for medical use. Construction has shifted into high gear with over 400,000 SF under construction or renovation at the end of 2017.

Net Absorption

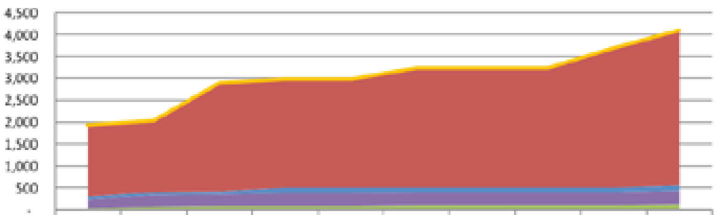
A review of **Figure 4** would reveal a net absorption of 561,158 SF from 2014 through 2017. In 2014 the High Desert experienced a reduction in occupancy of (74,166) SF; whereas in the last 3 years the occupancy of industrial space increased by 635,324 SF.

Figure 4 also breaks down the absorption by city as well as by year. During the last 4 years, the net absorption of industrial space for each geographical area was as follows: Adelanto has a negative absorption of (337,832) 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 negative net absorption of (202,348) SF during 2017 reflects the acceleration of the renovation activity to convert the buildings for the cultivation of cannabis. 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.

Occupancy levels in the Town of Apple Valley gained 32,146 SF in 4 years ending in December 2017. Barstow experienced a net absorption of 119,455 SF during the same period. Hesperia experienced a substantial increase in occupancy of 340,997 SF since 2013 despite a negative absorption of (251,586) SF in 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 643,402 SF of space during the 4 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 3 years.

Figure 3

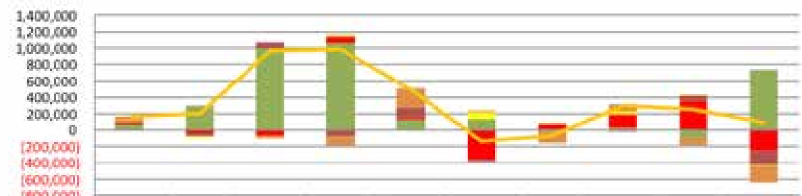
Cummulative Increase in High Desert Industrial Inventory by Size (Floor Area) of Building from 2008 through 2017



	2008	2009	2010	2011	2012	2013	2014	2015	2016	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	279	279	295	295	295	295	295	295	328
1 to 9,999 SF	34	62	78	88	88	103	103	103	103	113
All Industrial	1,933	2,034	2,900	2,975	2,975	3,242	3,242	3,242	3,687	4,100

Figure 4

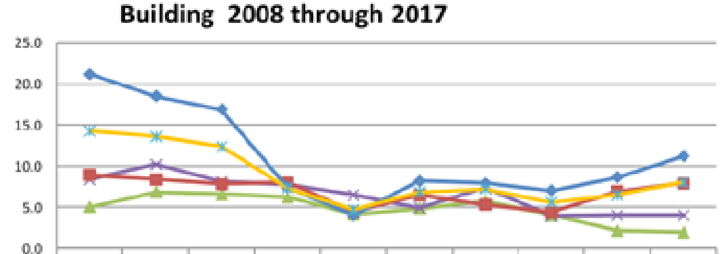
High Desert Annual Industrial Net Absorption by City from 2008 through 2017



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Unincorporated	(3,731)	6,281	1,790	960	200	(300)	0	900	(160)	1,160
Adelanto	47,364	11,524	(14,278)	(110,555)	230,903	25,028	(139,342)	88,077	(84,219)	(202,348)
Apple Valley	12,707	(12,359)	(16,570)	20,215	(14,343)	84,793	2,900	36,973	2,949	(10,676)
Barstow	15,893	(45,150)	69,680	(74,454)	129,019	(21,440)	9,199	(21,872)	69,209	(175,991)
Hesperia	25,397	(34,487)	(73,110)	85,840	15,474	(360,228)	70,349	163,769	358,465	(251,586)
Victorville	63,480	282,128	1,000,745	1,060,179	130,166	132,915	(17,272)	27,617	(98,405)	731,462
High Desert	161,110	207,937	968,257	982,185	491,419	(139,232)	(74,166)	295,464	247,839	92,021

Figure 5

High Desert Industrial Vacancy Rates by Floor Area of Building 2008 through 2017



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1 to 9,999 SF	5.0	6.8	6.6	6.2	4.1	4.8	5.7	4.0	2.1	1.9
10,000 - 24,999 SF	8.4	10.2	8.1	7.7	6.5	4.9	7.4	3.9	4.0	4.0
25,000-49,999 SF	8.9	8.4	7.8	8.0	4.4	6.5	5.3	4.4	6.9	7.9
50,000 SF and Over	21.2	18.5	16.9	7.4	4.0	8.2	7.9	7.0	8.6	11.2
All Industrial	14.3	13.6	12.4	7.3	4.7	6.8	7.2	5.6	6.5	8.0

INDUSTRIAL REPORT

The demand for large box industrial space in the High Desert is likely to increase for the next couple of years. Stirling Development is working with potential users and tenants to obtain commitments for the additional space planned at SCLA. In addition, Big Lots started 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 rezoned approximately 4,000 acres from mostly low density residential uses to industrial 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 4 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 year, 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 1,554,000 SF of vacant industrial space in the High Desert as of the end of 2017. The vacancy rate for the High Desert increased from 5.6% at the end of 2015 to 8.0% by June 2017. Some of this increase was due to the delivery of 412,718 SF of space in during 2017. At the end of that year the vacancy rate for buildings under 10,000 SF was 1.9 %; for buildings 10,000 to 24,999 SF the rate was 4.0%, and for 25,000 to 49,999 SF the vacancy rate 7.9%. The vacancy rate for buildings with a floor area of 50,000 SF or more was 8.0%. However, a portion 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 283,000 SF of such space on Lenwood Road in Barstow and another 172,000 SF in one property in Adelanto. In addition, there is substantial vacant industrial space in Adelanto's cultivation zone that has been or is being converted to cannabis cultivation facilities. Such space is technically vacant; but much of it is not available for immediate occupancy.

When adjustments are made for properties being converted to marijuana cultivation, for preleased space, for the buildings under construction and for the functionally obsolete truck terminals, 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 limited the absorption of industrial space in 2017.

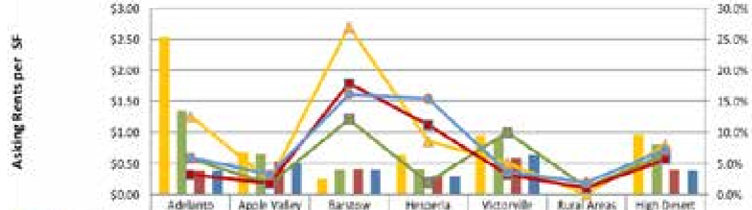
Rents and Vacancy Rates

Figure 6 summarizes the vacancy rates and rent levels for individual cities in the High Desert. Over the last 4 years, the vacancy rate for the City of Victorville decreased to 5.1%; 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 increased slightly to 2.1%, which is extremely low. The rate in the City of Adelanto increased to 6.0% at the end of 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 8.6% in 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 1.6%. Barstow had a 27.0% vacancy rate as of the 4th Quarter 2017; but much of it is in the former Yellow Freight cross-dock facility. The total vacancy in Barstow is 318,000 SF, of which 283,000 SF is directly related to the former truck terminal. The remaining 35,000 SF of vacant space is in a few buildings. If the former Yellow Freight facility is excluded, the vacancy rate in the balance of the industrial inventory is 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 as 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 a high of $0.96 per SF in the 4th Quarter of 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 $0.17 over the last 3 years; Barstow's rents declined to $0.25 per SF; and average rents in Hesperia increased by $0.35 per SF to $0.64 in part due to the legalization of cannabis distribution facilities in much of the industrial areas in the city. Asking rents in Victorville increased by 41% over the 3 years to $0.95 per SF, due to supply constraints for traditional space in the High Desert. Buildings leased to cannabis growers are commanding between $2.00 and $3.00 per SF per month. Traditional industrial users are looking at effective

Figure 6

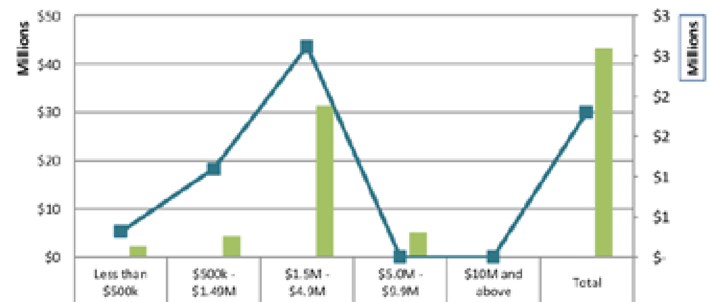
Asking Industrial Annual Rents per SF and Vacancy Rates in the High Desert Sub-Market 2014 Through 2017



	Adelanto	Apple Valley	Barstow	Hesperia	Victorville	Rural Areas	High Desert
2017 Rent/SF	$2.54	$0.67	$0.25	$0.64	$0.95	$0.00	$0.96
2016 Rents/SF	$1.36	$0.65	$0.40	$0.41	$0.92	$0.00	$0.81
2015 Rents/SF	$0.38	$0.54	$0.42	$0.31	$0.58	$0.00	$0.41
2014 Rent/SF	$0.38	$0.50	$0.40	$0.29	$0.64	$0.00	$0.38
2017 Vacancy Rate	12.6%	2.1%	27.0%	8.6%	5.1%	0.0%	8.0%
2016 Vacancy Rate	5.7%	1.7%	12.1%	1.9%	10.0%	1.1%	6.5%
2015 Vacancy Rate	3.2%	1.8%	17.9%	11.2%	3.2%	1.0%	5.6%
2014 Vacancy Rate	5.9%	3.2%	16.1%	15.4%	3.6%	1.9%	7.2%

Figure 7

Distribution of Sales Prices for Industrial Properties Sold in the High Desert in 2017



	Less than $500k	$500k - $1.49M	$1.5M - $4.9M	$5.0M - $9.9M	$10M and above	Total
No. of Transactions	7	4	12	1	0	24
Dollar Volume	$2,252,345	$4,387,500	$31,422,000	$5,170,000	$-	$43,231,845
Avg. Sales Price	$321,764	$1,096,875	$2,618,500	$-	$-	$1,801,327

Industrial Report cont. on page 44

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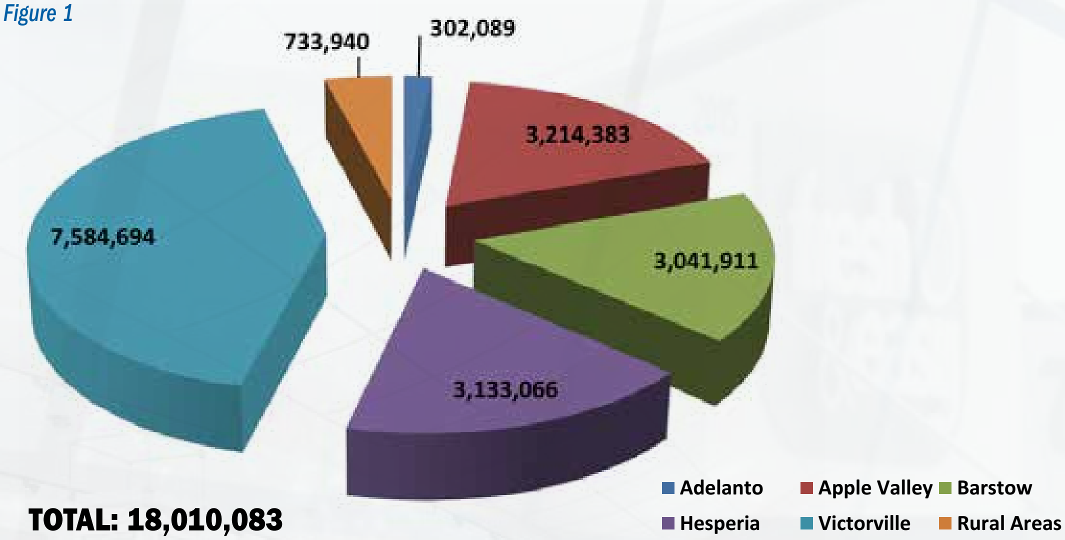
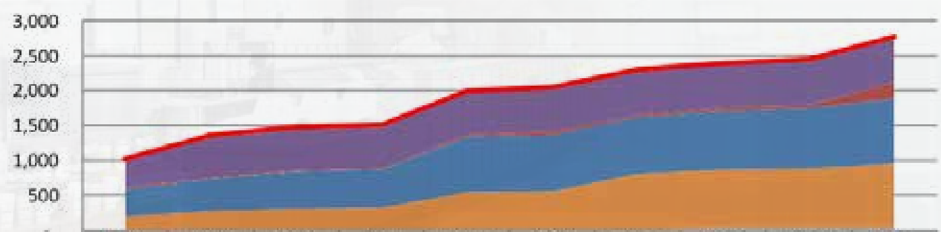
Retail Inventory by City in the High Desert - End of 2017

Figure 1



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

Figure 2



	2008	2009	2010	2011	2012	2013	2014	2015	2016	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	45	245
Hesperia	401	453	532	536	799	803	806	835	861	921
Victorville	192	273	301	319	532	553	794	839	857	923
Unincorporated	2	2	5	5	11	11	11	29	29	29
High Desert	1,026	1,352	1,475	1,499	1,993	2,046	2,295	2,391	2,440	2,767

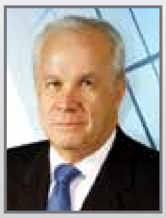
2018

Retail Market Watch

Coldwell Banker Commercial Victorville, California

Acquisitions in the Retail and Health Services Industries will Impact the Use of Retail buildings in the High Desert

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



Nick Di Cosola
Senior Vice President

Steven Thompson
Vice President

Vacancy

Vacancy decreased to 9.2% at year-end 2017 from 9.6% the prior year

Absorption

Increased to 287,000 SF in 2017 from 181,000 SF in 2016

Lease Rates

Increased slightly to $1.05 per SF

A significant transformation of the retail and health services industries that began in earnest in 2017 will impact the occupancy of retail buildings throughout the United States and the High Desert over the next decade. Amazon's purchase of Whole Foods will alter the way food and prepared meals are sold and delivered to households. An increasing percentage of groceries and prepared food will be purchased through the internet and delivered to the home, bypassing the traditional grocery stores. A limited number of individuals are already getting prepared meals delivered. As this expands it will compete with restaurants and fast food outlets as well as traditional markets such as Stater Bros.

The purchase of Aetna, a provider of health insurance by CVS pharmacy will result in primary medical care being provided in retail centers as the existing CVS retail outlets also become clinics staffed with doctors and nurses. The purchase of Rite Aid by Walgreen's and the anticipated purchase of 85% of the existing Rite Aid retail facilities by Walmart portend a significant consolidation of the drug distribution industry, healthcare services and the convenience store business. This transformation will likely reduce the cost and prices for such goods and services as well as the demand for traditional retail space in a region. The many households that suffered a decline in disposable and discretionary income since the Great Recession will benefit from the cost savings resulting from this restructuring of the retail and health care industries.

The anticipated changes described above will reinforce the impact the creation of Walmart Supercenter and Target stores have had on the region, which 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 converted to other land uses over time.

Inventory of Retail Space

At the end of 2017, there was 18,010,083 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 42% of the retail stock. 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 4.1% of the retail space in the region.

Since the beginning of 2008 developers have delivered 2,767,000 SF of retail space in the High Desert. This represents a 17.7% addition to the 15,300,000 SF that existed in the High Desert 10 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 923,000 SF over the decade, Barstow accounted for 245,000 SF while the City of Adelanto and the rural communities have added between 29,000 SF and 34,000 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.

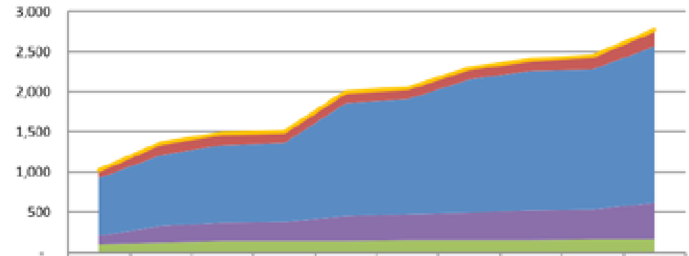
Figure 3 summarizes the cumulative additions to the retail stock in the High Desert by the type of retail product. During the 10-year period ending in December 2017, Power Centers and the Regional Malls added 1,955,000 SF, which was 73% of the total increase to the retail stock. At the end of 2017 Power Centers accounted for 6,222,000 SF of retail space. Another 458,000 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 6,074,000 SF. Neighborhood Centers accounted for 206,000 SF or 9.8% of the additions to the retail stock. As of the end of 2017, Neighborhood Centers accounted for 4,045,000 SF of space. Over the last decade 154,000 SF was added in Strip Centers. This represented 5.6% of the retail floor area added in the region. By the end of the period there was 1,669,000 SF of space in strip centers.

A total of 327,124 SF of retail space was delivered in 2017, including a Dodge RAM Truck Dealership, an O'Reilly Automotive store and a Krispy Kreme outlet in Victorville; Approximately 196,000 SF relates to the new Walmart Supercenter in Barstow. The adjacent Walmart facility will be demolished once the new facility is open. There was approximately 231,000 SF of the retail space under construction at the end of 2017. 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 Walmart Supercenter 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 two buildings totaling 10,000 SF at Main Street and Topaz. A Starbucks and a gas station opened for business at the Ranchero Road offramp at the I-15 Freeway.

Most of the new construction over the last few years is associated with the construction of Walmart Supercenters 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, such as Highway 395 and Palmdale Road. 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.

Figure 3

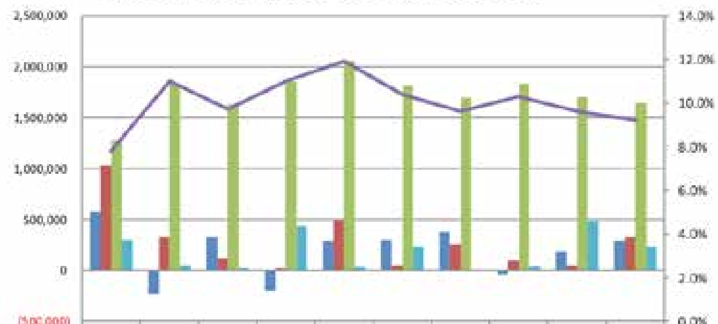
Cummulative Increase in the Inventory of Retail Space in the High Desert by Product Type from 2008 through 2017



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Neighborhood Centers	108	140	140	140	140	140	140	140	166	206
Power Centers to Malls	712	892	965	980	1,410	1,433	1,665	1,734	1,748	1,955
General Retail	101	198	231	241	306	324	341	368	373	458
Strip Centers	105	122	139	139	139	151	151	151	154	154
All Retail Product Types	1,026	1,352	1,475	1,499	1,993	2,046	2,295	2,391	2,440	2,767

Figure 4

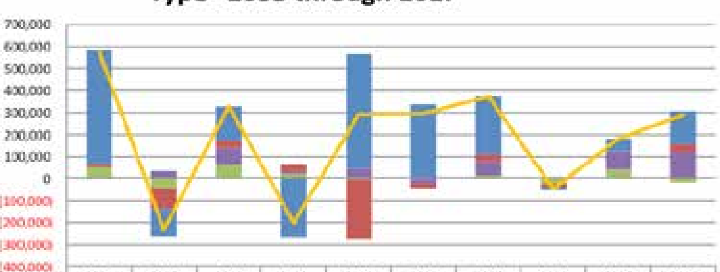
High Desert Retail Net Absorption, Construction Deliveries and Vacancy by Year 2008 through 2017



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net Absorption	581,702	(231,124)	328,077	(201,665)	289,833	295,853	372,257	(47,476)	180,855	287,490
Delivered	1,026,14	326,487	123,162	24,241	494,498	32,877	248,808	96,472	48,571	327,124
Vacancy	1,273,419	1,831,024	1,626,309	1,857,215	2,056,880	1,811,904	1,690,455	1,834,403	1,702,119	1,645,675
Under Construction	295,091	52,220	17,306	432,455	31,877	233,016	0	41,150	482,440	231,067
Vacancy Rate	7.8	11	9.7	11	11.9	10.4	9.6	10.3	9.6	9.2

Figure 5

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



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Power Centers to Malls	517,416	(127,058)	154,884	(267,932)	520,909	338,263	363,919	(12,599)	57,243	149,890
Neighborhood Centers	16,936	(96,595)	35,133	33,474	(268,243)	(20,573)	30,121	(14,903)	2,261	37,557
General Retail	(3,882)	13,978	77,409	11,769	43,897	(20,985)	64,472	5,728	78,910	117,731
Strip Centers	51,232	(41,449)	50,651	21,024	(6,730)	(852)	13,745	(25,702)	42,441	(17,688)
All Retail Product Types	581,702	(231,124)	328,077	(201,565)	289,833	295,853	372,257	(47,476)	180,855	287,490

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Figure 6

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Neighborhood Centers	7.9	11.1	10.2	9.4	16.1	16.6	15.9	16.2	16.7	16.6
Power Centers to Malls	10	15.5	13.8	19	16	10.5	9.6	10.8	10.1	9.5
General Retail	5.3	6.3	5.5	5.4	5.7	6.4	5.5	5.9	4.6	4.0
Strip Centers	9.2	12.7	10	8.7	9.1	9.8	9	10.5	8.1	9.2
All Retail Product Types	7.8	11	9.7	11	11.9	10.4	9.6	10.3	9.6	9.2

Net Absorption

From 2014 through 2017, the cumulative Net Absorption of retail space in the High Desert was 793,000 SF (**Figure 4**). From 2008 through 2013 the increase in demand was 1,063,000 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 Walmart Supercenter 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. Walmart Supercenter 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 Walmart Supercenter 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 10-year period ending with 2017, 1,595,000 SF or 86% of the Net Absorption in the High Desert was in the Power Centers and the Mall of Victor Valley. In the last 5 years, they absorbed 797,000 SF or 73% of the Net Absorption for all product types. One factor that added to the absorption of anchor space in older Neighborhood and Community Centers was the increase of discount stores and Hispanic markets in the High Desert. Strip Centers with 97,000 SF of Net Absorption accounted for 5.0% of the Net Absorption of retail space in the High Desert from 2008 through 2017. For the last 5 years, the occupancy level of Strip Centers increased by 12,000 SF. The occupancy of Strip Centers over the last few years has been stable. General Retail space had a Net Absorption of 409,000 SF in during the last 10 years, which represented 22.0% of the region's increase in demand. During the last 5 years General Retail accounted for 246,000 SF or 22.6% 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 40% less than they were in in 2006. That has been the case 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 consumers' 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 wage increases in the Los Angeles Basin. It is questionable 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 2017 the vacancy rate for the High Desert had decreased to 9.2%, 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 December 2017 (**Figure 7**). Victorville had a vacancy rate of 9.2%. The rate for the Town of Apple Valley was 10.5%. Most of the Town's excess vacancy was created in 2011 due to the closing of the Lowe's Home Improvement Center, which accounted for 4.2% of the total retail stock; and the construction of a misplaced shopping center on Bear Valley Road and Central Road. Also, there is an older obsolete 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 5.9% at year-end 2017. The City of Adelanto had a vacancy rate of 0.7% at the end of the period studied, which is primarily related to their limited stock of retail space.

The vacancy rates for each of the four types of retail products is much more revealing than the overall rates for each geographical area. The vacancy rate for Strip Centers decreased from 10.5% at year-end 2015 to 9.2% at the end of the 2017. An estimated 3 percentage points was likely Excess Vacancy.

During the same period, the vacancy rate for General Retail buildings decreased from 5.9% to 4.0% and the Vacancy Rate for Power Centers, Community Centers and the Mall of Victor Valley decreased from 10.8% in 2007 to 9.5%. 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 Lowe's building, in older functionally obsolete buildings and in properties that suffer from locational obsolescence such as the former Target on Palmdale Road in Victorville.

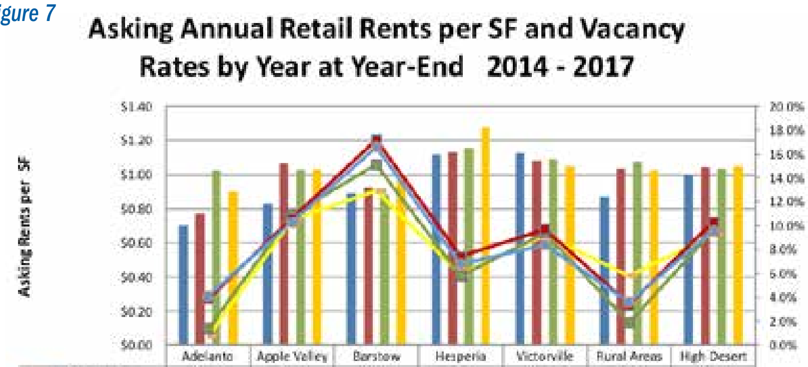
At year-end 2015 Neighborhood Centers had a vacancy rate of 15.9%. Over the next two years the vacancy rate increased to 16.6% at the end of 2017. The less desirable Neighborhood Centers have been losing out to Power Centers that have multiple large retailers that attract more of the shoppers. As a result, 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 Net 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 4 years. These are average asking rents as reported by CoStar, which do not reflect negotiated Effective Rents that in many cases are substantially 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.

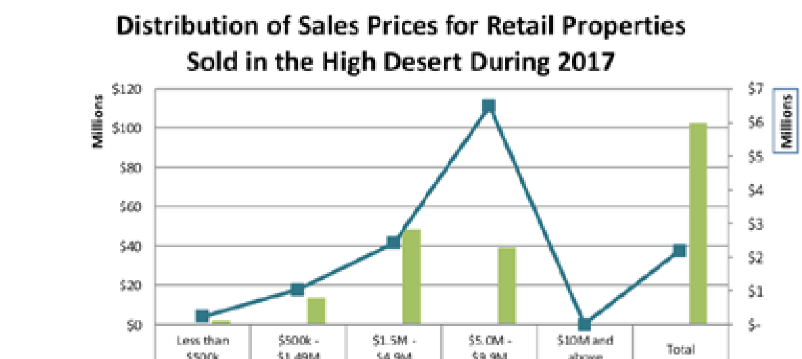
Average and Effective rents have increased slightly over the last few years; however, they remain substantially below the levels of the boom years of 2006 and 2007. When population growth and median household income begin to approach long term expectations, retail rents could increase significantly. 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

Figure 7



	Adelanto	Apple Valley	Barstow	Hesperia	Victorville	Rural Areas	High Desert
2014 Rent/SF	$0.70	$0.83	$0.89	$1.12	$1.13	$0.87	$1.00
2015 Rents/SF	$0.77	$1.06	$0.92	$1.13	$1.08	$1.03	$1.04
2016 Rent/SF	$1.02	$1.03	$0.88	$1.15	$1.09	$1.08	$1.04
2017 Rent/SF	$0.90	$1.03	$0.97	$1.27	$1.05	$1.02	$1.05
2017 Vacancy Rate	0.7%	10.5%	12.9%	5.9%	9.2%	5.8%	9.2%
2016 Vacancy Rate	1.4%	11.0%	15.1%	5.8%	9.4%	1.9%	9.6%
2015 Vacancy Rate	3.9%	10.6%	17.2%	7.4%	9.7%	3.4%	10.3%
2014 Vacancy Rate	4.1%	10.3%	16.6%	6.8%	8.4%	3.6%	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	8	13	20	6	0	47
Dollar Volume	$1,892,015	$13,511,737	$48,469,850	$38,963,000	$-	$102,836,602
Avg. Sales Price	$236,502	$1,039,364	$2,423,493	$6,493,833	$-	$2,188,013

rates of inflation. The rent levels for the retail space adjacent to the Walmart Supercenter stores, the Super Target stores and in other primary retail nodes are substantially higher than the average rents reported in Table 7, which is heavily weighted by the available space in secondary locations.

Since the Great Recession the Inland Empire and the High Desert have seen many higher priced retailers such as Ralphs in Apple Valley and Victorville and Vons 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

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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 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 longer term impact on the High Desert is unknown.

Retail Property Sales

Figure 8 depicts statistics related to the sale of retail and hospitality properties in the High Desert during 2017. There were 47 sale transactions, of which 8 had a sales price of less than $500,000. The average sales price for properties in this category was $236,000. Thirteen transactions had a sales price between $500,000 and $1,499,999, the average of which was $1,039,364. There were 20 sales involving a price between $1,500,000 and $4,999,999. The average sales price in this group was $2,423,493. There were six sales in the $5,000,000 to $9,999,999 price range; and the they had an average sales price of $6,493,833. There were not any transactions involving a sales price over $10,000,000.

The highest sales price in 2017 was a 29,961 SF shopping center on 4.61 acres of land at 14073 Main Street in Hesperia, CA. It sold on March 1, 2017 for $9,300,000, which was 310.40 per SF. The Cap Rate was 7.13% The second highest priced sale involved a 63 room Springhill Suites Marriott at 9625 Mariposa Road in Hesperia, CA. It sold for $7,950,000 ($126,190 per Room) on August 18, 2017. The price reflects an 8.49% Cap Rate; and it is equivalent to $650.67 per SF. Third place went to the sale of a 14,490 SF freestanding Walgreen's building at 15480 Main Street, Hesperia, CA. The building commanded a price of $5,571,000. This is equivalent to a Sales Price of $398.27 per SF. The transaction occurred on October 27, 2017. It sold at a 5.80% Cap Rate. Other Sales in 2017 involved the Big 5 Sporting Goods building in Victorville, and the Popeyes fast food restaurant on Bear Valley Road in Hesperia.

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 Walmart Supercenter, a Super Target or the departments stores in a mall.

The total consideration for all 47 transactions was $102,836,602. The median building size was 6,000 SF. The median sales price was $1,625,000 and the median sales price per SF was $196.45 The price per SF ranged from $30.81 to $1,733.33. The latter reflects the value of the excess land.

Conclusions

The High Desert is expected to complete the transition to more cost-efficient retailers over the next two to four years. Last summer a Walmart Supercenter opened for business in Barstow. Another 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.

The development of Walmart Supercenters and Super Target 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 secondary locations.

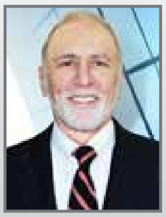
The increase in retail sales after the Great Recession has tracked with the growth in population and inflation. More recently, increases in wages and salaries have also added to the purchasing power of households in the High Desert. The trend for retail sales is positive but incremental. For there to be a jump in retail sales there would have to be 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 was not syphoned off by e-commerce.

If CVS/Aetna provides primary health care services in its drug stores it will increase the foot traffic to the retail centers in which the CVS facilities are located. If Walgreens and Walmart (in the converted Rite Aid stores) also offer health care services in their facilities it would add to the demand for retail space in the shopping centers.

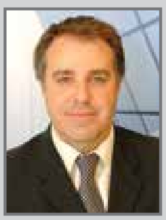
CAPITAL MARKETS

Capital Markets

Coldwell Banker Commercial Victorville, California



Ron Barbieri
Senior Vice President



Jason Lamoreaux
President / Broker

Demand

Demand remains strong; however, there is limited inventory

Inventory

Capital Exceeds available inventory

Cap Rate

Cap Rates have increased approximately 50 basis points during 2017

Increases in the Federal Funds Rate Will Have Less Impact on Mortgage Interest Rates and Cap Rates than Many Fear

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

Changes in the cap rate, which is used to estimate the value of real estate investment properties by dividing it into net operating income (NOI), is primarily influenced by changes in the interest rate on mortgage loans and shifts in expectations regarding a property's NOI. All things being equal, as mortgage interest rates rise, so will the cap rate to preserve the spread between the cost of debt and return on asset value. Increases in the cap rate lowers the value of investment properties. Also, the affordability of single-family homes and condominiums is adversely affected by increases in the interest rate for home mortgages. Because mortgage interest rates track with the interest on 10-year U.S. government notes. The rise in interest rates on the 10-year notes would increase the rates on residential mortgages, which is why investors want to know where the interest rate on the 10-year note is headed.

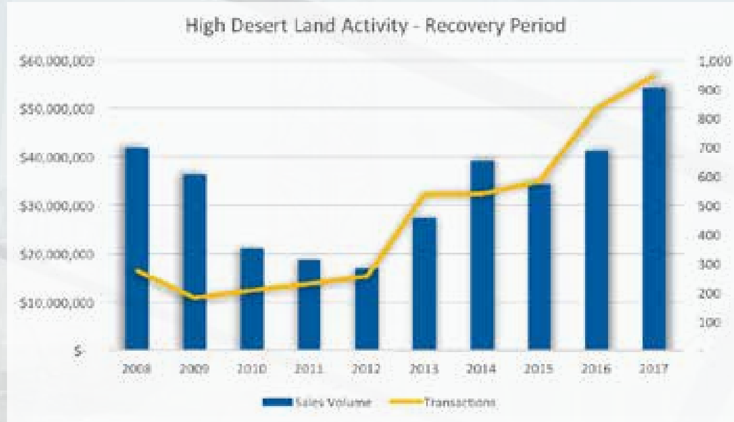
Every month the Wall Street Journal (WSJ) surveys approximately 60 economists. In January 2018 their median forecast called for the federal funds rate, which was 1.38% in December 2017, to reach 2.21% in December 2018 and 2.81% at year-end 2019. The federal funds rate was expected to increase 143 basis points over the two-year period. The interest on the 10-year notes, which was 2.41% in December 2017, was expected rise to 3.13% by December 2018 and 3.46% by December 2019. This represent a 105-basis point increase. The increase forecasted for the 10-year note was only 73% of the change in the federal funds rate. Economist A. Gary Schilling recently did a statistical study that suggested the impact was less than 50%. The change in the interest rate on the note was less than the change in the federal funds rate, because the primary determinant of the interest rate on the long-term debt is expected inflation rate over the term of the note or bond. In the WSJ survey the rate of inflation, which was slightly less than 2.0% in 2017, was projected to average 2.3% during 2018; 2.2% in 2019 and 2.3% in 2020.

The federal funds rate is determined by the Board of Governors of the Federal Reserve Bank (Fed), which has two competing mandates. One is to promote the growth of the U.S. economy by keeping interest rates low. The other is to keep inflation within an acceptable range, which for the last two decades has been defined as approximately 2% per year. If the Fed becomes concerned about inflation it will tighten the money supply by raising the federal funds rate.

There is some evidence the Fed is concerned that the headline unemployment rate, now 4.1%, is so low it will soon spawn significant wage inflation that, if left unchecked, will spread throughout the economy. Some central bankers believe in the theoretical Phillips curve relationship, which is the lower the unemployment rate, the higher the inflation rate. Schilling disagrees. In his monthly Insite Economic Report of June 2017, he points out the unemployment rate and inflation have been falling in recent years. It is his opinion the inflation rate will remain low over the next several years, because wage and salary increases will be moderate for reasons discussed below; industrial and agricultural commodities continue to suffer from oversupply; and the prices of many goods are falling. For example,

Capital Markets Report cont. on page 45

LAND



Courtesy of BIA – Baldy View

Land Market Watch

Coldwell Banker Commercial Victorville, California

Land – A Welcomed Resurgence

Jason Lamoreaux

Jason Lamoreaux
President / Broker

Activity

Transactional and sales volume increased in 2017, and is anticipated to post gains in 2018

Inventory

Inventory of available properties has increased as the market improves

Current Development

New housing starts along with new retail and industrial developments increased activity in 2017

The High Desert, known for its abundance of open space and available land, has experienced significant volatility in past cycles, most notable during the mid-2000's real estate boom and subsequent bust as illustrated in the graphs on the opposing page. 2017 marked the tenth year since the onset of the great recession, which resulted in a 90% reduction in land transactions, followed by steep declines in value. While the tremendous sales volume and transactional peaks set in the previous boom cycle for vacant land may overshadow current activity, significant gains have been realized in the past five years during the recovery period as demonstrated in the Recovery Period graph.

Vacant land experienced year-over-year gains in 2017, posting a 31.7% increase in sales volume while recording a 13.2% increase in transactional volume during the same period. While activity in retail and industrial development have lent to the increase in activity, a resurgence in residential land acquisition by regional and national production builders, as well as local builders, has contributed to the increase in vacant land activity.

Vacant land zoned for retail, commercial, industrial and office professional experienced modest gains year-over-year in 2017. Residential parcels experienced significant gains, primarily related to in-fill, ready to build, single-family residence (SFR) lots scattered in existing developments throughout the High Desert. In 2016, local speculative builders were acquiring scattered, single SFR lots throughout the High Desert ranging in price from $28,000 to $36,000 per lot, depending on location and availability of services. By year-end 2017, similar parcels were trading for $48,000 to $55,000.

New housing starts increased 17.4% in 2017, and a similar growth rate is anticipated for 2018 as builders proceed cautiously with new deliveries to meet demand. Overbuilding in the residential sector is not a concern in the foreseeable future.

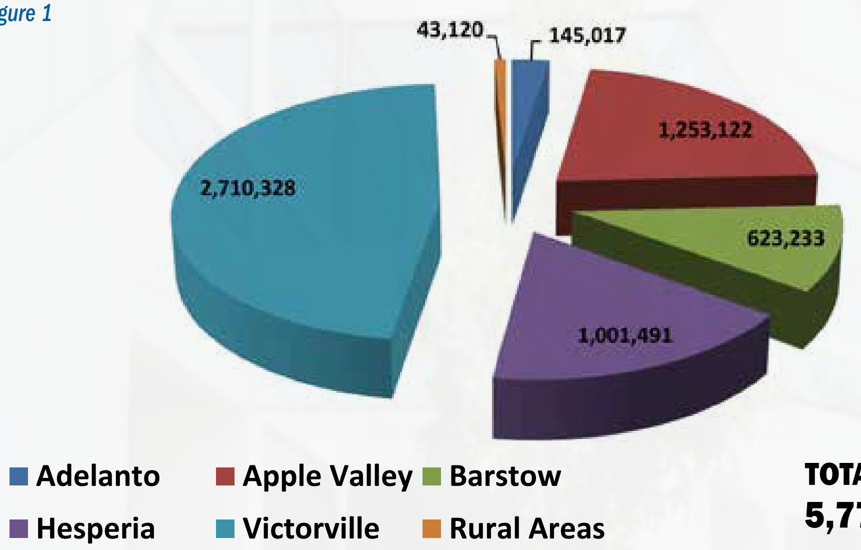
Retail, multi-family and SFR developments' parcels are anticipated to post gains in 2018 as demand continues to build in the High Desert. The industrial sector, with the exception of Adelanto, will experience increased activity and valuation as vacancy rates in Barstow, Apple Valley, Hesperia and Victorville continue to decline as a result of a strong economy, and the displacement of traditional users in Adelanto by the cannabis industry.

The City of Adelanto expanded their cannabis zoning overlay in 2017 to include nearly 5,000 acres, which will provide an abundance of available properties in a market that experienced 750% to 1,200% increases in property values during the initial zoning phase. Land values are anticipated to retract to sustainable levels in 2018, however, electricity remains a problem and properties with ready power will retain value.
Land activity in the High Desert will continue to increase throughout 2018 as development expands to meet demand, with nominal speculation.

OFFICE

Office Inventory by City in the High Desert Year-End 2017

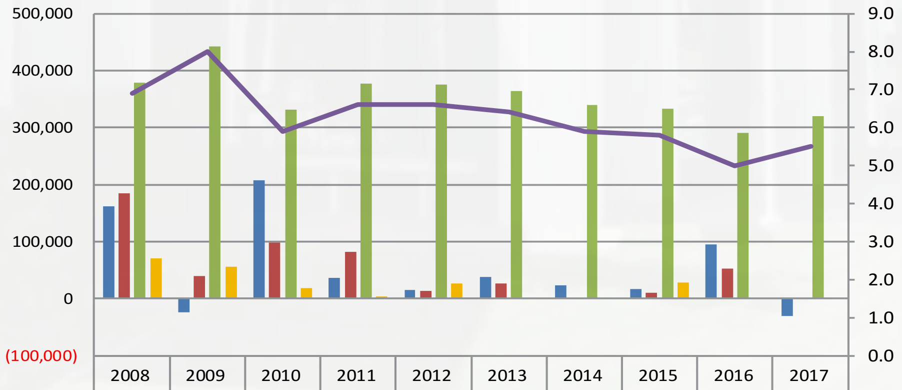
Figure 1



TOTAL:
5,776,311

High Desert Office Net Absorption, Deliveries, Under Construction and Vacancy by the Year 2008-2017

Figure 2

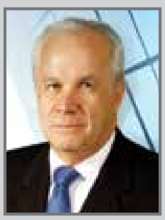


	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net Absorption	161,290	(23,599)	208,076	36,807	15,252	38,581	23,940	17,247	94,427	(29,948)
Delivered	184,838	40,025	97,815	81,565	13,680	27,363	-	10,000	52,297	-
Vacancy	378,582	442,206	331,945	376,703	375,131	363,913	339,973	332,726	290,596	320,544
Under Construction	71,000	56,028	19,022	3,480	27,363	0	0	27,980	0	0
Vacancy Rate	6.9	8	5.9	6.6	6.6	6.4	5.9	5.8	5	5.5

Office Market Watch

Coldwell Banker Commercial Victorville, California

Ron Barbieri
Senior Vice President



Nick Di Cosola
Senior Vice President

Vacancy

Increased to 5.5% in 2017 from 5.0% at end of 2016

Absorption

Declined from 94,000 SF in 2016 to (-30,000) SF in 2017

Lease Rates

Unchanged at $1.35 per SF

Office Users Seek Space Solutions that Reduce Occupancy Costs

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

The demand for office space in the High Desert declined by 30,000 SF during 2017. No additional office space was added to the supply resulting in the vacancy level increasing slightly to 5.5%. Asking rents remained unchanged 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 2017 and there are no office buildings under construction as of the end of 2017. In fact, the increase in demand for office space in the High Desert due to the expansion of the Health Services industry has evaporated as local hospitals provide office space for their medical personnel within their own facilities and open primary care facilities to relieve the demand for emergency room services. The CVS/Aetna announcement that it will provide primary care services within their retail outlets portends the shift of office space demand to retail centers rather than the smaller independent office complexes. The growth of the "gig" economy in which individuals work as independent contractors often for multiple firms on a part-time basis has also reduced the demand for office space. Such employees often work out of their home using laptops and cell phones. Such trends may limit the demand for office space in the High Desert over the next few years.

Inventory

As of the end of 2017 there were 884 office buildings in the High Desert with a total Net Rentable Area (NRA) of 5,776,000 SF (**Figure 1**). Most of the office building stock consists of Class B and C buildings. Almost all the 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, or C 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 Net Rentable Area of office space.

Over the 10-year period ending in December 2017, a total of 508,000 SF of office space was constructed in the High Desert (Figure 2). Only 62,000 SF of space was completed during the four years ending with 2017, most 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 2017; and no buildings were under construction at of the end of last year. The lack of recent construction activity is consistent with the recent lack of Net Absorption.

Absorption

During the four years ending with 2017 the High Desert experienced a Net Absorption of 106,000 SF, of which 99,000 SF occurred in 2016. During 2017 the occupancy level decreased by 30,000 SF. Over that four year period tenants leased an additional 4,500 SF of office space in the Town of Apple Valley; Adelanto absorbed 3,300 SF; Barstow gained 42,000 SF of occupancy; Hesperia absorbed 18,000 SF and Victorville experienced a 40,000 SF increase in occupancy. The rural areas had a negative absorption of (2,700) SF.

Even though Net Absorption of office in the High Desert in 2016 was driven by the increased demand for medical office space, during 2017 there appears to be a decline in the demand for medical office space. Three of the five cities and the unincorporated area experienced positive absorption ranging from 1,074 SF in Adelanto to 12,214 SF in Hesperia. The Town of Apple Valley and the City of Victorville each experienced a decrease in occupancy of approximately 23,000 SF. Hence, the demand for office space declined by 30,000 SF during the last year and the level of leasing activity was less than in 2016.

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 last year. The demand for medical office space is concentrated in a limited number of submarkets. Medical tenants have clustered around St. Joseph Health's St. 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 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

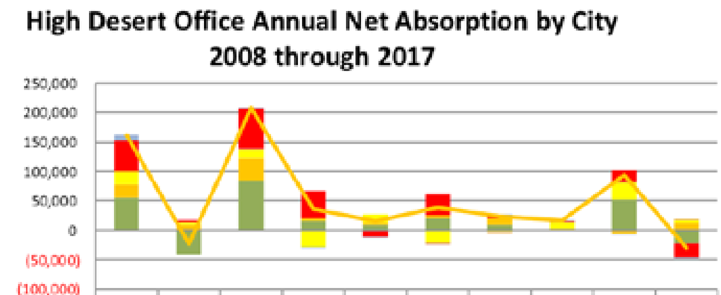
At the end of 2017, the vacancy rate for office buildings across the High Desert was 5.5%, which was equivalent to 320,000 SF of vacant space (**Figure 2**). Victorville had a vacancy rate at 7.1%. The rate for the Town of Apple Valley was 6.2%. The City of Barstow had a Vacancy Rate of 4.9% (**Figure 4**). The Vacancy Rate for Hesperia was 1.5% and Adelanto's was 0.0%. In general, Vacancy Rates have declined since 2014. Barstow is a relatively small market that experienced a 490 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 2017, asking office rents remained stable. This is likely to continue until there is a substantial increase in Net Absorption.

Quoted Rents

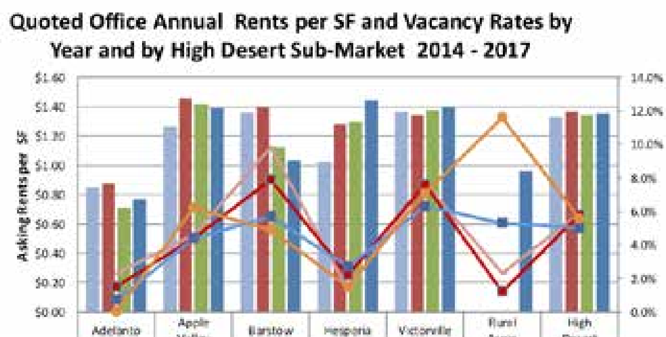
The Asking Rents depicted in Figure 4 are the sum of the NNN Base Rent and the NNN Charges for Property Taxes, Insurance and Common Area Maintenance (CAM). The rents reflect the average of all the properties available for lease as of the end of each year; and, as such, reflect the location, quality and 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 $1.35 per SF at the end of 2017. This is consistent with the assessment by real estate agents who believe nominal office rents have not increased. Actual effective rents are still well below the level required to support the development of speculative office space where none or little of the space is preleased.

Figure 3



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Unincorporated	9,543	0	500	(792)	(308)	0	1,600	500	(1,806)	(2,694)
Apple Valley	51,420	3,788	69,300	46,679	(11,916)	35,962	5,880	2,007	19,565	(22,965)
Adelanto	1,000	500	1,000	500	0	(3,333)	(73)	1,222	1,110	1,074
Barstow	21,804	4,283	15,578	(29,262)	14,786	(20,184)	(3,582)	11,612	28,780	5,246
Hesperia	21,498	9,517	36,483	3,209	4,017	6,471	10,228	975	(5,278)	12,214
Victorville	56,025	(41,687)	85,215	16,473	8,673	19,665	9,887	931	52,056	(22,823)
High Desert	161,290	(23,599)	208,076	36,807	15,252	38,581	23,940	17,247	94,427	(29,948)

Figure 4

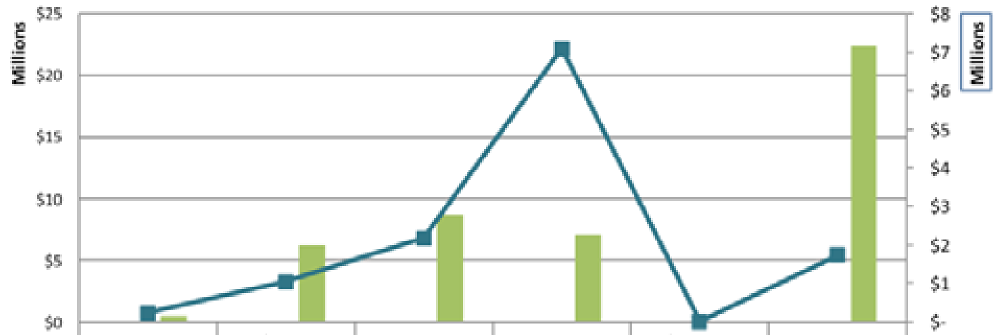


	Adelanto	Apple Valley	Barstow	Hesperia	Victorville	Rural Areas	High Desert
2014 Rents/SF	$0.85	$1.26	$1.36	$1.03	$1.37	$0.00	$1.33
2015 Rents/SF	$0.88	$1.46	$1.40	$1.28	$1.35	$0.00	$1.37
2016 Rents/SF	$0.71	$1.42	$1.12	$1.29	$1.38	$0.00	$1.34
2017 Rents/SF	$0.77	$1.39	$1.04	$1.44	$1.40	$0.96	$1.35
2014 Vacancy Rates	2.3%	4.6%	9.8%	1.3%	7.7%	2.3%	5.9%
2015 Vacancy Rate	1.5%	4.4%	7.9%	2.2%	7.6%	1.2%	5.8%
2016 Vacancy Rate	0.7%	4.4%	5.7%	2.7%	6.3%	5.3%	5.0%
2017 Vacancy Rate	0.0%	6.2%	4.9%	1.5%	7.1%	11.6%	5.5%

OFFICE REPORT

Figure 5

Distribution of Sales Prices for Office Buildings Sold in the High Desert in 2017



	Less than $500k	$500k - $1.49M	$1.5M - $4.9M	$5.0M - $9.9M	$10M and above	Total
No. of Transactions	2	6	4	1	0	13
Dollar Volume	$441,000	$6,207,500	$8,665,000	$7,100,000	$-	$22,413,500
Avg. Sales Price	$220,500	$1,034,583	$2,166,250	$7,100,000	$-	$1,724,115

Office Building Sales

Figure 5 depicts statistics related to the sale of office buildings in the High Desert during 2017. There were 13 sales. The average sales price for properties in this category was $1,724,115. There were two transactions that had a sales price less than $500,000. The average sales price for this price category was $220,500. There were six sales between $500,000 and $1,490,000, the average of which was $1,034,583. There were four sales involving a price between $1,500,000 and $4,900,000. The average sales price in this group was $2,166,250. 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). The Cap Rate was 8.76%. On August 25, 2017, a single-story office building at 15980 Main Street in Hesperia, CA sold for $3,700,000 ($226.01 per SF). The Net Rentable Area of the buildings was 16,371 SF. The Cap Rate was 6.72%. The third largest sales transaction involved a 16,340 SF Medical Office Building at 19195 Outer Highway 18 in the Town of Apple Valley. The property sold for $1,865,000 on November 30, 2017. This was equivalent to $114.14 per SF. The structure was built in 2006.

The total consideration for all 13 transactions was $22,413,500. The median building size was 10,878 SF. The median sales price was $1,724,115 and the median sales price per SF was $114.14 The price per 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 land sale transactions during 2017.

Conclusions

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 doctors 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 few years the growth in the demand for office space in the High Desert due to the expansion of the Health Services sector will likely be limited. To the extent there is such an increase, demand 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. If CVS/Aetna proceeds with its announced plans to deliver Primary Care Health Services in its retail facilities it would reduce the demand for space in the High Desert.

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 fund such capital expenditures due to 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 substantial industrial job formation and single-family home construction in the Inland Empire and the High Desert.


FLAMMABLE
LOT

Basen Schendel Multi-Family Team Sells Prime Barstow Property for $2,150,000

Victorville, Calif. - Coldwell Banker Commercial Vice President Bob Basen and Senior Client Advisor Jerrad Schendel have coordinated the sale of a prime 48-unit apartment property in Barstow built in 1965 with twenty-four 1 bedroom and twenty-four 2 bedrooms. Representing both the buyer and seller of the property, Basen and Schendel worked diligently to market the property and obtain the right buyer, securing the final price of $2,150,000.

The seller reached out to multiple firms, but chose the team of Basen and Schendel because of their market knowledge and marketing strategy. The marketing campaign, which included highlighting the upside in rents and strong tenant rental demand in the area, generated multiple offers on the property.

Having worked with the buyer over the years, Basen and Schendel knew this property potentially met his criteria, so presented the buyer with a wide range of information about the property - rent and projected rent analysis based on a moderate repair budget, market overview, significant tangible data points, as well as examining existing financials to find ways to streamline expenses to create operational efficiencies.

The buyer and seller agreed on terms and the transaction closed on time. "We prepared a very detailed marketing package and market analysis, generating outstanding interest," stated Schendel. "By representing both the buyer and seller, we were able to complete the transaction without delays or contract changes."

"We pride ourselves in strong communication and follow up, which enables us to really get to know our clients' needs and expectations, and as a result, we were able to provide individualized service to meet the outcomes they desired," stated Basen.

Thompson Helps Thriving Business Expand

Hesperia, Calif. - Steven Thompson, Vice President for Coldwell Banker Commercial, has assisted Camp Transformation, a privately owned personalized training facility and gym, expand into a 10,000 sf industrial space on Eucalyptus Street in Hesperia.

Owners Jeff and Michelle Croteau had grown out of their first 2,500 sf facility earlier in 2017, and sought out Steven Thompson to help them not only grow their space, but in the process, their client base as well. "The owners had created a plan to expand the services of Camp Transformation but to accomplish that, they needed to relocate to a much larger space to make it a success", said Thompson.

In such a tight market, Thompson had his work cut out for him to find a large enough property, but within a couple of days, Steven found the location and the negotiations with the seller began. Steven stated, "I knew it would be a challenge, knowing what Camp Transformation was looking for, but I was able to help them out and expand their business."

Now, Camp Transformation has expanded, just as Jeff and Michelle envisioned. The gym now offers more equipment and more versatile programs such as a 6-week weight loss challenge, elite training programs, body detox program and much more, thanks to the expertise and knowledge of Steven Thompson.

Adelanto Property Brokered by Thompson, Sells for $5,170,000

Adelanto Calif. –Coldwell Banker Commercial Vice President Steven Thompson represented the seller and buyer for the industrial property on 16585 Beaver Road for a sale of $5,170,000.

“I originally represented the seller in purchasing the property a year ago for $2 Million,” stated Thompson. “In just over a year, the seller added value going through the entitlement process and creating a tentative map for 5 separate parcels.”

The recent buyer, a Los Angeles investment company, recognized the value of the property for both its existing 18,270 SF building and the value of the site plan for four additional 18,000 SF buildings plus one 12,000 SF building. This additional 84,000 SF can be constructed on the site as depicted in the site plan, once the existing 2,000 SF building is razed, to accommodate the future construction on this 5.5 acre site.

The property is located in Adelanto’s Cannabis Cultivation Zone, and is close to Highway 395 and the Southern California Logistics Airport (SCLA). The City of Adelanto is quickly becoming a major cultivation and manufacturing center for the California cannabis industry, having an impact on sales and leasing pricing and activity.

Coldwell Banker Commercial and Thompson’s vast network and marketing campaigns have been a major driving force in successful transactions.

Quite Simply, Hesperia Works for Business

TEAM HESPERIA

Hesperia, strategically located on Interstate 15 and US Highway 395 in Southern California, is a pro-business community eager to welcome prospective developers, industrialists, retailers and new business owners. The Hesperia team will remain your strategic partner, making your transition here expedient, affordable, productive and profitable.

• Regional population 432,937
• Average HH income $61,576
• Large workforce • Affordable land
• 200+ acre properties available
• Entitlements, not entanglements
• 9 Western states in 16 hours by truck
• City-owned rail properties
• Mojave Desert AQMD offers less stringent air quality regulations than South Coast AQMD

Quite simply, Hesperia works for business - let us work for you!

Lisa K. LaMere
econdev@cityofhesperia.us
cityofhesperia. us/econdev
760/947-1910

CURRENT CONDITIONS

Housing Market

HIGH DESERT OVERVIEW

ENDING DECEMBER 2017

$235,000
MEDIAN SOLD PRICE

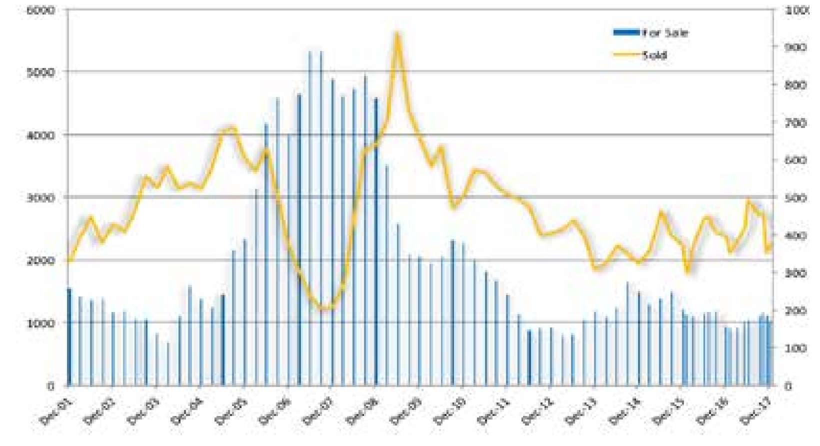
1,120
HOMES ON THE MARKET

401
HOMES SOLD DECEMBER 2017

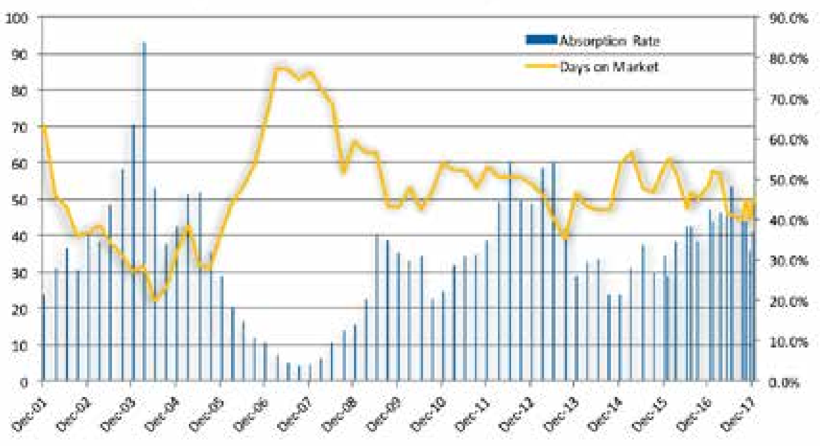
4.4%
PRICE INCREASE YEAR OVER YEAR

$132.00
AVERAGE PRICE PSF

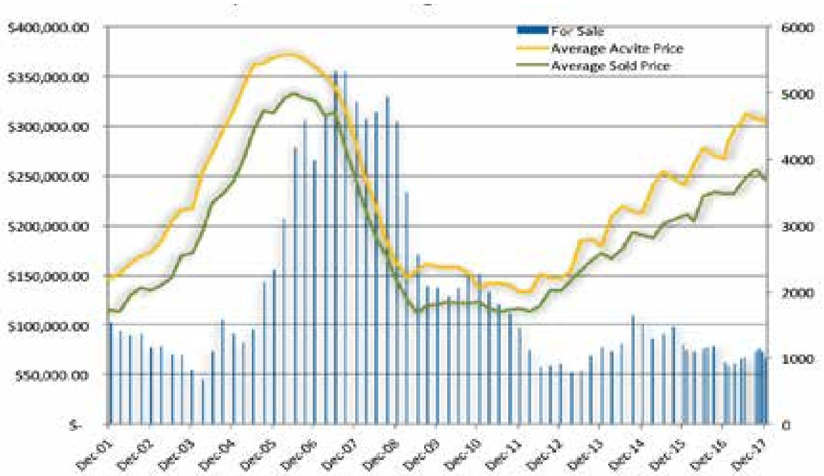
Housing Inventory in Relation to Sold Units



Days of Inventory in Relation to Absorption



Inventory in Relation to Listing Price & Sold Price



CALIFORNIA'S GOLDEN APPLE VALLEY

Apple Valley's pro–business leadership, concierge staff, and streamlined entitlement process have cultivated a competitive alternative to the rising costs of the Inland Empire's industrial market. Companies and their employees are attracted to Apple Valley by the low cost of business and living, available land for both commercial and residential development, an eager workforce, and quality housing. Beautiful parks and sports fields, amphitheater and aquatics facility, and the region's most extensive trails system combine with safer neighborhoods, distinguished schools and leading health care services to help cultivate "A Better Way of Life."

- Big Lots is developing a 1.3 million sq. ft. distribution center to be operational in mid-2019.
- One of California's least expensive cities for doing business.
  - *Kosmont Companies*
- 4.3 million square feet of retail and office space and 2.6 million square feet of industrial inventory.
- One of California's most cost efficient cities for Industry and Medical Device Manufacturing.
  - *Source: The Boyd Report*
- Voted "Best Place to Live" in Region 5 Years in a Row.
- Voted "Best Golf Course" in Region.

SHOP LOCAL

THINK APPLE VALLEY

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

2018

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: #1 Meet your Tenant

Even though the property was bought as an investment, you are still in the people business and going out of your way to meet up with lessees can lead to longer, more meaningful dealings between yourself and your tenant. Also, understand their business and business model. They may have unique requirements.

Tip: #12 Improve Property Grounds

Maintaining the front door to your property and the common areas where people walk thru on a constant basis is an often overlooked and important tool to help retain tenants. Plant flowers in the front of your property. Keep the parking lot clean, the grass mowed and the bushes trimmed. Make the property inviting to come into work.

Tip: #10 Send Tenants Anniversary and Holiday Cards

This is a simple thing that can go a long way. Write your tenants a hand-written note inside. Another idea is to give your tenant a small gift, like a DVD player, when they first move in. It is small, but they will realize you are not an ordinary landlord.

Tip: #8 Communication is Key

Make sure you communicate with your tenants on a regular and consistent basis throughout their tenancy. Let them know if there is a scheduled maintenance such as parking lot cleaning so they can make arrangements. Tenants don't mind being inconvenienced once in awhile as long as they are aware and can make the necessary arrangements.

Brad Merrell

City of Barstow
Consulting City Engineer

Commercial development in Barstow continues to be strong in 2018. There are several businesses currently under construction in the Barstow area. Montara Place, a 300,000 square foot center anchored by WalMart Supercenter is continuing work on the parking lot with seven (7) pads ready for development. Other projects on the horizon for Barstow are located in the Lenwood Outlet area and include Home 2 Suites and Dunkin Donuts with a Baskin-Robbins, on Serrano Drive. Outlets of Barstow has submitted plans for an expansion of store area and relocation of their administrative offices along with a new bus terminal and parking area. Plans have been submitted for two new Terrible Hurst Gas Stations; and a Taco Bell. Marshalls department store, the Habit Burger and Jersey Mike's are now open for business.

Negotiations with the State Lands Commission and Caltrans concerning acquisition of property located in the Spanish Trails Specific Plan area are nearing their conclusion. The relinquishment maps have been recorded and the process will be completed in the second quarter of 2018.

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.

For more information, contact Brad Merrell, Consulting City Engineer at 760-255-5105 or via email at econdev@barstowca.org.

Lisa K. LaMere

City of Hesperia
Economic Development Management Analyst

Hesperia has added another retailer to its growing list of those who have sited their first High Desert location here. The upcoming home of the two-story, 6,200 s.f. Shoe City is undergoing substantial tenant improvements, essentially gutting a former florist's location at Main Street and E Avenue.

Starbucks has opened in Lewis Retail Center's new High Desert Gateway West at Cataba and Main. Also planned for this location are more than 6,100 s.f. of fast casual concepts for Dickey's, Jimmy John's Gourmet Sandwiches, and Fatburger, all anticipated opening by summer. Five Star Nails and a gas station will likewise join these highly awaited eateries.

High Desert residents will enjoy the long-awaited medical services coming to Hesperia, starting with Kaiser Permanente. The managed care giant's purchase of approximately ten acres for 100,000 s.f. of medical office buildings (MOB) in Hesperia is welcome news. Kaiser's MOB will be sited west of the Walmart Supercenter on Escondido. Another developer is planning additional medical offices on Bear Valley Road with a new three-story, 26,520 s.f. medical office building, accompanied by 9,300 s.f. of restaurant and fast casual space.

A variety of housing choices, including commuter-friendly duplexes, affordable senior apartments, and 1- and 2-story infill homes can be found in Hesperia. The 134 single family residence (SFR) permits issued through 2/9/18 of fiscal year 2018-19 are equal to last year's, with a 128% increase over FY 2016-17.

Hesperia's multi-family housing inventory will increase by more than 700 units in the near future. On the horizon are 326 apartments and 207 duplexes (414 units) which include West Main Villas (100 duplexes/200 units) and Eagle's senior apartments 'the Villas'. This 55+ apartment complex is pulling permits for a second phase mirroring the first phase of 96 low and moderate income apartments. Muscatel will be the site of 70 apartment units and Frontier Communities is planning 160 units in their two-story apartment buildings. Olive Tree's 93 duplexes (186 units) will be located on 3rd Avenue. Desert Hacienda on Sequoia will bring another 14 duplexes (28 units) to the city.

Hesperia's industrial strength is being fortified by Mag Bay Yachts' development of their manufacturing operation on Caliente near US Hwy. 395. The two-building, 50,500 s.f. project has been entitled and construction plans are being reviewed. An expansion of the former Heilig Meyers distribution center is underway. The additional 128,000 s.f. will bring the total of that facility to 616,800 s.f.

For more information about these projects and other opportunities, contact Economic Development staff at econdev@cityofhesperia.us.

Sophie L. Smith

City of Victorville
Director of Economic Development

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

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 is situated on 1.31 acres with building space that encompasses 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 were also developed and began operating toward the end of 2017. The new developments are located 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 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 moved into an existing 15,000-square-foot building in the shopping center anchored by the High Desert Indoor Swap Meet and the 99 Cents Only Store and opened its doors in February 2018. In October of 2017, the Victorville Planning Commission approved plans for two car washes that will be built along Bear Valley Road. The Speed Wash

City of Victorville Market Pulse continued on page 34

Orlando Acevedo

Town of Apple Valley
Economic Development Manager

In December 2017, Apple Valley issued a grading permit for the highly anticipated Big Lots Distribution Center. Haskell, the engineering and development firm, commenced foundation work in January. The 1.3 million square foot logistics facility, the largest in the High Desert, will add 300 construction jobs to the area and up to 500 operational jobs when open in 2019.

In the fall of 2017, the Town Council approved a new hotel incentive deal, in the form of a Transient Occupancy Tax reimbursement agreement, to attract Apple Valley's first modern-day hotel. The deal returns a portion of the "bed tax" paid by the developer. Project proponents are expected to submit a development application in early 2018 to build a nationally recognized 70+ room hotel at Jess Ranch Marketplace.

The Town Council recently approved for Belco Development to overhead power lines to the future Apple Valley Gateway center, at the northeast corner of Interstate 15 and Dale Evans Parkway. The action effectively shaves $800,000 from off-site improvements costs. "The Council's approval of our request to install the powerlines above ground allows the project to remain economically feasible," said Steve Farmer, Belco's Managing Partner. Apple Valley Gateway, Apple Valley's first freeway-frontage commercial center, is a fully-entitled 10-acre, 80,480-square-foot project including retail and restaurant spaces, fuel stations, and a proposed hotel.

The Village Business District Association is tackling several major capital projects in 2018. The first is to improve drainage channels along Outer Highway 18, between Navajo and Central Roads. The second is to pave John Glenn Road which will allow the Town to accept the street into its maintenance system. These improvements will please patrons visiting Off the Grid Brewery, the Rusty Bull Roadhouse, and other nearby businesses.

New and Coming Soon

- St. Mary's Medical Center opened a 12,500-square foot Urgent Care center in January
- Wing Stop at Apple Valley Commons opened in Q42017
- 76 Gas at Apple Valley Commons is expected to open in Q22018
- Tractor Supply Co. has submitted a development application
- 282 new housing permits were issued in FY16-17, more than the last two years combined

For information contact Orlando Acevedo at 760.240.7915 or via email at oacevedo@applevalley.org, or visit selectappelvalley.com.

Jessie Flores

City of Adelanto
Economic Development Director

The City of Adelanto has approximately 1 million SF of industrial space that is currently under construction and another 250,000 SF under renovation to accommodate the cultivation of cannabis for medical use. This will add an estimated 500-1000 direct jobs in the City of Adelanto and generate substantial revenue for the City in 2018/2019. The City recently expanded its cultivation zones totaling approximately 5,000 acres. "We are going capitalize on this $50 billion industry," said Mayor Rich Kerr. An additional 1.1 million SF of industrial space is in the entitlement planning process. "The Land Use Department is working tirelessly to complete these and other non-cannabis related projects," said Jessie Flores, Economic Development Director. In addition, Caltrans will start construction on the widening of Highway 395 to a four-lane highway with a left turn median lane and signaled intersections in late 2018. "U.S. Highway 395 is a major arterial highway within the City of Adelanto that our economic development department is leveraging to create the city's first commercial/retail corridor," said Mayor Pro Tem John Woodard. The 7-mile widening program for Highway 395 from Palmdale Road to Highway 58, also known as Kramer Junction, is scheduled to be completed by the end of 2019. "The City of Adelanto is working closely with Caltrans to obtain access to all the retail projects that front Highway 395," said Flores.

The cultivation of cannabis is starting to create an increased demand for housing within the City of Adelanto. Three projects are under construction totaling 97 units. Another 369 units in 5 new projects are either in the entitlement process or have architectural and engineering documents being reviewed by the City. Construction is about to start on two gas stations. The Arco station is on the SEC of Highway 395 and Air Expressway Blvd, and a Union 76 station is approved for the SWC of Highway 395 and Cactus Road. The City is also leveraging its baseball stadium which is one of the High Desert's assets, recently hiring High Desert Events to book and manage events such as the three-day motorcross grand prix, the police association's national rodeo, concerts and other sport related activities.

For information contact Jessie Flores at (760) 954-4521 or email JFlores@ci.adelanto.ca.us.

Col. Paul Cook (Ret.)

U.S. Congressman
California 8th District

The numbers for our region's labor force continue to trend in a positive direction. According to the U.S. Bureau of Labor Statistics, unemployment continues to hold strong at 4.1%, which is 1.5% lower than January of last year. Moreover, the fastest growing job sector is the building trades, with a total of 14,300 new construction jobs that were added over the last 12-month period.

I'm optimistic that the regional economy is primed to expand at a rapid pace. Recent actions by Congress and the administration to lower taxes on businesses and reduce burdensome federal regulations make for ideal economic growth conditions. During the last fiscal year, the President issued 67 deregulatory actions, and the House of Representatives recently passed the Regulatory Relief Act to reduce bureaucratic barriers that hinder businesses. The challenge now is gaining Senate approval on these House-passed reforms so that we can get them to the President's desk as quickly as possible.

Robert A. Lovingood

First District Supervisor
San Bernardino County
Board of Supervisors

From property values to job creation, the High Desert economy is well positioned for continued growth.

Property values in the High Desert are on a gentle, gradual rise. We are seeing growth in both commercial and residential construction. In 2017, Big Lots broke ground on a 1.3 million-square-foot logistics center in Apple Valley, with plenty of opportunities for growth around the High Desert. By 2019, industrial properties in the Inland Empire will see some of the greatest net occupancy gains and new product deliveries anywhere in North America. Home prices in the High Desert have risen 49.5 percent since 2014. Indeed San Bernardino County's housing shortage is projected to grow to 65,000 homes by 2019. If two-thirds of the new homes needed were built, it would create an estimated economic impact of $2.1 billion in San Bernardino County. The High Desert is seeing a new era of stability, growth and economic opportunity.

Victorville Market Pulse continued from page 32

will be located on the southwest corner of Topaz, while a Jet Wash Express will be built at the intersection of Bear Valley and Pocoima Roads.

On August 9th 2017, Valley Hi-Toyota opened its new facility after a 16-month renovation and expansion to its existing dealership. The dealership has expanded its previous 19,762 square foot showroom to 39,835 square feet. Toyota's new facility features 47,643 square feet of building space. Additionally, RAM Truck Center previously opened its doors on March 5, 2017 at the AutoPark at Valley Center. 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. The City of Victorville's Auto Park at Valley Center, the only auto mall in the entire Victor Valley, includes nine premier dealerships for residents.

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.

In June 2017, we joined forces with our development partner, Stirling Development to celebrate the completion of Distribution Center 18, a 370,023-square-foot, industrial facility at Southern California Logistics Airport. Distribution Center 18, which was leased to Newell Brands and Plastipak, is the second, large-scale industrial facility to be fully leased at SCLA in just one year's time. Between City and private development at SCLA and Foxborough, we have leasing capacity for more than 4.5 million square feet available of high-desirable, industrial space in Victorville.

In December 2017, Southern California Logistics Airport entered into a lease agreement with Karem Aircraft Inc. for space to serve as a testing area for a new aircraft rotor system for the beginning of the 2018 year. Karem, based in Lake Forest, CA is an aircraft development and manufacturing company participating in the US Army Joint Multi-Role Technology Demonstration (JMR-TD) program. Southern California Logistics Airport is one of the nation's largest industrial airports. Its lack of commercial airline traffic, 360 days of "severe clear" weather, land capacity for expansive facilities and municipal utilities are key factors that have attracted major aerospace clients. State-of-the-art hangars of all sizes accommodate projects ranging from aircraft MRO companies to the painting of large, wide-body aircraft, including 747-800s, 777-300s and the 787 Dreamliner.

For more information about the City of Victorville, visit our website at www.victorvillecity.com or contact us at 760.955.5032.

Carlos Rodriguez

BIA Baldy View Chapter
Chief Executive Officer

California housing markets have appreciated strongly since the subprime era, with the Inland Empire leading the way. Most areas have recaptured or surpassed the price levels of the last cycle. In the next several years, slightly lower levels of appreciation will emerge as mortgage rates increase. The undersupply of rental and "for sale" housing in the Inland Empire is expected to reach about 150,000 units by Year 2020 according to a report by MetroStudy and Real Estate Economics.

The High Desert has a good supply of developed lots which are in short supply across the region. Lending standards are tight in this cycle, leaving many small builders and developers without access to capital. Larger builders will assemble many smaller ownerships into the scale needed to attract investment.

High Desert New Home Data

Quarter	Model Homes	Completed Homes	Units Under Construction	Developed Lots
4Q14	29	95	95	1,801
1Q15	30	88	104	1,725
2Q15	35	98	135	1,765
3Q15	33	95	111	1,732
4Q15	31	79	92	1,761
1Q16	34	93	100	1,774
2Q16	26	76	96	1,772
3Q16	28	77	112	1,943
4Q16	27	98	121	1,906
1Q17	30	81	148	1,841
2Q17	35	92	145	1,747
3Q17	35	103	173	1,711
4Q17	34	128	101	1,748

A development climate that allows builders to meet demand at the viable price points is essential to establish a healthy base of housing and is necessary to create a community that is an attractive place to live and work. Thriving businesses will locate where modern and attractive housing options are available for all workers.

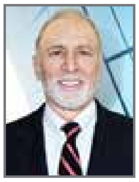
$2.3 Million Sale of Phelan Retail and Office Property

Victorville, Calif. - Coldwell Banker Commercial represented all parties in the sale of a 12,950 square foot commercial building located in Phelan. Coldwell Banker Commercial President and Broker, Jason Lamoreaux, represented the seller while Vice President, Bob Basen and Commercial Investments Specialist, Jerrad Schendel represented the buyer of the multi-tenant retail shopping center. Fronting Phelan Road and offering nine fully occupied retail suites, the prime center attracted multiple offers.

Lamoreaux worked closely with the Coldwell Banker Commercial marketing team to strategize an in-depth marketing campaign and market analysis for potential buyers. Lamoreaux worked swiftly to circulate the available property and quickly secured a serious offer. Coldwell Banker Commercial's Bob Basen and Jerrad Schendel immediately notified clients of the newest available property as soon as it hit the market, quickly securing a final sales price of $2.3 million. The buyer has also appointed the Coldwell Banker Commercial team to move forward with the management of the retail center.

"We always have our finger on the pulse when it comes to properties for our clients, even those not actively looking. We understand our client's needs and are continuously working to provide them with options that we know are a good fit. We anticipated this particular property would be in high demand with the current growth in the Phelan area. So we worked closely with our client to devise a serious offer that the seller would entertain, without seeing our client pay above market value. Working within the Coldwell Banker team offered an even faster than normal turnaround time, as the communication between parties was in real time. This was a great property and a seamless transaction," stated Basen.

"The High Desert has seen a tremendous amount of growth and Phelan is a part of that trend. It is always rewarding to work with clients that see the current and potential value in investing in our community. Bob and I take pride in understanding our clients' needs and presenting them with opportunities we know they will find in line with their unique commercial real estate visions," stated Schendel.



The Dynamics of the High Desert Housing Market is Similar to the Rancho Cucamonga Market of 30 Years Ago

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

This research effort investigated economic, employment, population, and housing trends at the federal, state, and local level to estimate the increase in demand for single-family and multi-family units in the Inland Empire and the High Desert over the next three years and the next decade. The results were surprising. During the period 2018 through 2020, the study anticipates a moderately accelerating expansion in the demand for single-family and multi-family housing units in Riverside and San Bernardino counties and a substantial increase in demand for single-family units in the High Desert. For many millennials the High Desert will be one of the few areas in Southern California where they will be able to afford a home. The millennials have started to get married and have children, so their desire to own a single-family home is accelerating. Over the next decade the demand for single and multi-family residential units in the High Desert has a 50/50 chance of approaching the levels experienced from 2003 through 2005. After the next five years a substantial portion of the increased demand will likely be driven by the development of industrial space in the High Desert, and the migration of households to the Victor Valley area that have at least one member who commutes to work in the Los Angeles Basin. Also, the rate at which individuals retire to the High Desert could triple over the next decade provided the municipalities in the High Desert allow for Del Webb type communities. The long-term residential and industrial growth potential of the High Desert is comparable to the growth potential of the Ontario-Rancho Cucamonga area of 30 years ago.

The Economy and Employment

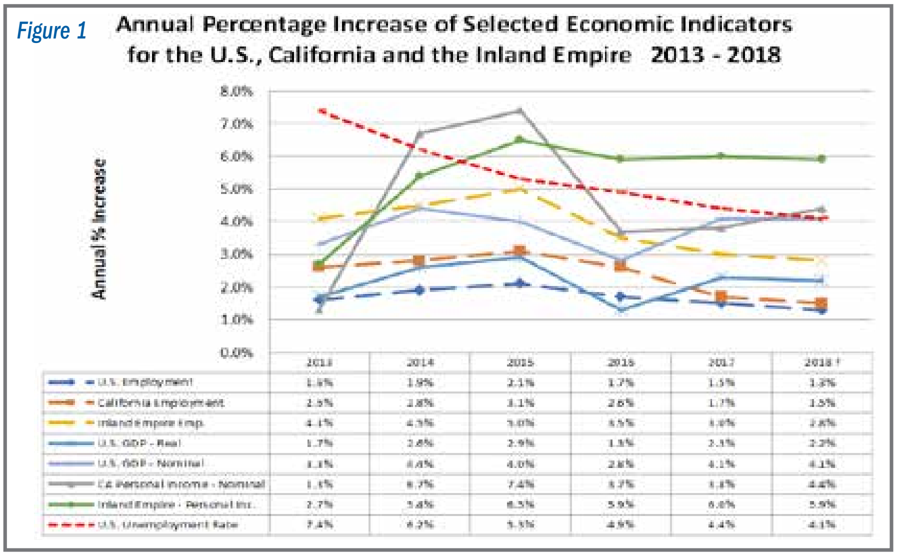
The January 2018 Wall Street Journal Economic Forecasting Survey of more than 60 economists revealed the unemployment rate as of the end of December 2017 had declined to 4.1%. It was forecasted to gradually decrease to 3.8% by December 2018, remaining at that level through the end of 2019 before rising to 4.1% by December 2020. The U.S. economy is expected to add approximately 2.1 million jobs in 2018 which is down slightly from the prior year. The GDP expanded by 2.3% in 2017. The average of the economists' GDP forecast called for the GDP to increase by 2.8% in 2018, 2.3% in 2019 and 2.0% in 2020. The latter was approximately the average for the last 8 years. Inflation is expected to remain muted. The rate of inflation, which was slightly less than 2.0% in 2017, is projected to average 2.3% during 2018, 2.2% in 2019 and 2.3% in 2020.

The federal funds rate was 1.38% in December 2017. It was projected to reach 2.21% in December 2018 and 2.81% at yearend 2019. The interest on the 10-year notes, which was 2.41% in December 2017, was expected rise to 3.13% by December 2018 and 3.46% by December 2019. This is consistent with the Federal Reserve's announcements that it will continue raising interest rates that have been suppressed for the last nine years to stimulate the U.S economy. The rise in interest rates on the 10-year notes would increase the rates on residential mortgages. Actual housing starts were 1.21 million units in 2017. They were forecasted to increase to 1.29 million in 2018 and 1.34 million units in 2019. Housing starts for the U.S. historically have fluctuated around 1,500,000 units per year. Housing starts are beginning to approach long term trends; however, the ratio of multi-family units to single-family homes has increased substantially in most geographical areas of the country.

The Wall Street Journal (WSJ) asked each economist to estimate the odds there would be a recession in the next 12 months. One year ago, the economists thought the odds of a recession in the next 12 months were 16 chances in 100. The current estimate is only 13 chances in 100. This represents a continued lack of concern about a recession in the short term. If a recession were to occur, it would be caused by events and forces external to the U.S.

The current administration in Washington D.C. is much more optimistic about the growth rate for the U.S. economy than the consensus of the economists surveyed by the Wall Street Journal. Some members of the administration believe the U.S. economy will average a growth rate exceeding 3% for the next few years. This is primarily because of the reduction in federal regulations and reductions in the income taxes paid by corporations and individuals, owing to the new federal income tax law passed in December 2017. Because there are no reliable estimates of the negative effect the addition of regulations over the last decade had on economic growth and because it is difficult to estimate the positive impact the new income tax law will have on the economy, economists do not have a basis for estimating the extent to which the U.S. economy will be stimulated. Also, much of the WSJ's economic survey reflects forecasts that were made before the passage of the new federal income tax law and the two-year federal budget that was enacted and signed into law on January 9, 2018. Preliminary estimates suggest it will add $300 billion to the federal deficit over the next two years thereby stimulating economic growth in the United States.

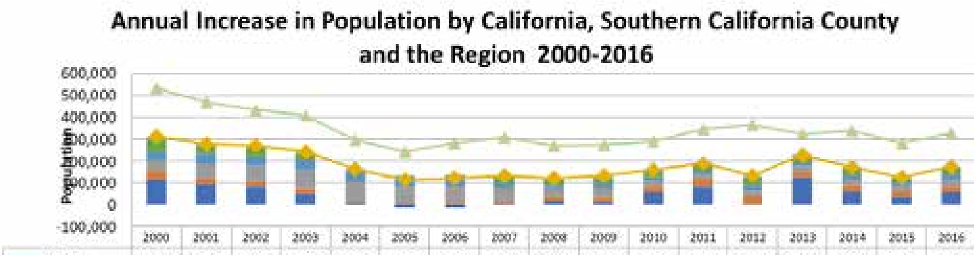
Figure 1



Chapman University generates an economic forecast for the U.S., California and the Inland Empire. In the past its forecast for the nation has been accurate and its forecasts for 2018 are close to the median forecasts surveyed by the WSJ. This housing study takes into consideration Chapman University's forecasts for California and the Inland Empire, which are summarized in **Figure 1**. The chart reflects the actual and estimated percentage annual increases for 2013 through 2017 and the forecasted increases for 2018. A review of the chart would reveal that the rate of growth for payroll employment for the United States, California and the Inland Empire have been decreasing since 2015 and they are projected to slow even more in 2018. Nevertheless, the Inland Empire will continue to expand at 2.8% in 2018 which is higher than the 1.5% projected for California and the 1.3% for the nation. Chapman University projects the real GDP (inflation adjusted) of the United States will expand by 2.2%, reflecting a nominal growth rate of 4.1%. California's personal income, which is a proxy for the State's economic growth, is forecasted to increase by 4.4%. The personal income for the Inland Empire is projected to increase by 5.9%.

The U.S., California and the Inland Empire replaced all the jobs they lost during the Great Recession by 2015. The Inland Empire outperformed the nation in job replacement, even though residential construction in Riverside and San Bernardino counties has only started its rebound. The level of employment growth in the U.S., California and Southern California since the end of the Great Recession, in conjunction with relatively low unemployment rates, would suggest household and per capita incomes should be up for a majority of the population. Unfortunately, this is not the case for two reasons. First, many of the additional jobs are in low-paying positions in areas such as retail; leisure; hospitality including hotel maids; and restaurant waiters. Far fewer jobs were added in high paying sectors such as manufacturing, utilities and information technology. The second reason incomes didn't increase was the shift in employment to industries that have a higher proportion of part-time employees slowing the reduction of part-time workers for economic reasons in the U.S. The high level of part-time workers represents underutilized workers, many of whom would prefer to work full-time. If the economy were to expand and eliminate an additional 2.0 million part-time workers, real wages and salaries would be under pressure to increase, thereby driving up household and per capita incomes.

Figure 2



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Ventura	13,386	11,754	10,897	7,910	3,635	3,645	4,802	5,642	6,244	8,217	6,305	4,658	6,251	6,444	3,991	2,356	3,323
San Diego	53,986	34,408	36,991	28,093	13,064	9,841	22,653	29,767	30,250	28,114	27,273	31,671	43,325	32,634	31,696	21,133	30,646
San Bernardino	35,753	45,282	43,801	49,617	45,547	37,140	30,697	21,676	10,964	18,838	19,630	15,630	17,193	13,594	21,913	15,285	23,888
Riverside	53,917	65,266	74,514	83,819	81,791	80,275	73,290	54,422	38,680	46,935	23,930	26,195	27,992	26,122	27,236	28,884	36,952
Orange	40,197	30,171	24,779	21,520	8,902	13	4,605	14,157	16,894	13,435	23,131	32,219	32,678	24,614	24,678	20,794	20,037
Los Angeles	111,920	89,837	78,784	49,785	10,344	-18,307	-18,220	5,501	16,520	14,598	57,658	79,816	3,561	124,094	60,011	34,004	57,580
So. California	309,159	276,718	269,766	240,744	163,283	112,607	117,827	131,165	119,552	130,157	157,927	190,189	131,000	227,502	169,525	122,456	172,426
California	534,519	468,289	433,917	408,497	296,964	241,908	278,908	305,411	268,823	273,310	287,663	343,587	366,198	323,464	339,182	281,789	327,626

alone accounted for 57,800 of the increase; Orange County for 20,000; Riverside for 28,600; San Bernardino for 23,900, San Diego for 30,600 and Ventura County for 3,300. The rate of population growth over the remainder of this decade is expected to continue at 2016 levels if the economy expands at the moderate levels discussed above.

The economist A. Gary Schilling opined that globalization has increased the living standards of millions in developing counties; contributing to a squeeze on middle income families, and exacerbating the degree of income polarization in the United States and in other developed countries. Since 1967 the share of the aggregate income has been shifting to the top 20% of households when ranked by household income. This has been tolerated because until recently the purchasing power of the lower 80% of the households by income was rising even as their share of the total fell. However, average real income for the lower 90% of the households based on income has declined from $34,100 in 2002 to $30,400 in 2012. This represents a 10.7% decline over the decade. The real income of the top 10% has been rising and the higher the income the greater the increase. The median household income in Riverside and San Bernardino counties is significantly lower than the coastal areas of Los Angeles County, Orange County and San Diego. Consequently, many of the households in the Inland Empire and the High Desert have suffered a decline in real household and per capita income (inflation adjusted) over the last 17 years.

Population

The rate of population growth in California as well as the Southern California region and its individual counties decreased substantially since the beginning of the last decade. This is reflected in **Figure 2**. In 2000, the population of California increased by 534,500 individuals, while the Southern California region grew by 309,200. The lowest rate of population growth for most counties was during 2005. During that year the population of the state only increased by 241,900 and Southern California expanded by 112,600. The annual population growth of Riverside County peaked in 2003 at 83,800 and in San Bernardino County at 49,600, supported in part by the jobs created by the extremely high level of residential construction. In 2011 the population of Riverside County grew by only 26,200 compared to 15,300 for San Bernardino. Orange County had little or no growth in 2005 and 2006 while Los Angeles County experienced a decrease of 18,200 for each of the same two years. This was likely caused by households moving to the Inland Empire from Los Angeles and Orange counties where they could own a home. The population expansion of every county in 2010 and 2011 was significantly less than in 2000. The decline in population growth was primarily the result of the Great Recession, the resulting loss of jobs and the decrease in employment opportunities.

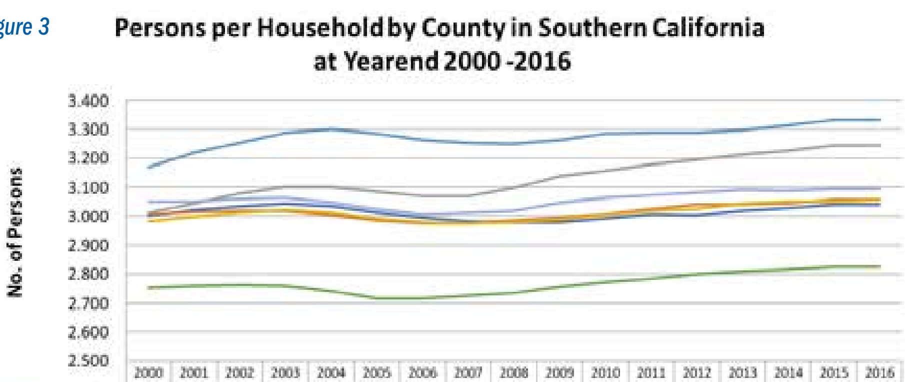
The population for the state and most counties in the region has increased over the last six years due to an improvement in employment opportunities. During 2016 the population of California grew by 327,600 and Southern California added 172,400 inhabitants. Los Angeles

The population of the High Desert increased between 20,000 and 25,000 per year during 2004, 2005 and 2006. During the last few years the population grew between 2,000 and 4,000 per year. Before 2017 there were four primary drivers of population growth in the High Desert; (1) Households moving to the High Desert that have at least one individual who commutes to the Los Angeles Basin for employment; (2) Industrial firms locating manufacturing or warehousing and distribution facilities in the area; (3) the expansion of the aerospace firms at Southern California Logistics Airport (SCLA); and (4) construction including the building of residential units. Beginning in the summer of 2017, the cultivation of cannabis for medical use in the City of Adelanto was expected to add a substantial amount of base employment to the High Desert and as such could become the fifth driver of population growth in the region provided the federal government continues to allow such cultivation for medical use.

Household Formations

The year-to-year change in the number of households in a geographical area is a function of changes in population and variations in the number of persons per household. **Figure 3** reflects the number of persons per household for each of the six counties in Southern California from 2000 through 2016.

Figure 3



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Los Angeles	3.000	3.021	3.035	3.042	3.034	3.011	2.995	2.981	2.978	2.977	2.990	3.006	3.003	3.017	3.029	3.041	3.041
Orange	3.006	3.014	3.019	3.018	3.001	2.983	2.974	2.975	2.983	2.994	3.005	3.025	3.039	3.041	3.044	3.057	3.057
Southern Calif	2.979	2.998	3.012	3.020	3.011	2.992	2.979	2.974	2.977	2.988	3.003	3.019	3.026	3.042	3.050	3.051	3.055
Riverside	3.012	3.043	3.077	3.100	3.100	3.084	3.068	3.068	3.096	3.138	3.156	3.178	3.195	3.211	3.225	3.244	3.244
San Bernardino	3.169	3.218	3.252	3.288	3.299	3.284	3.262	3.254	3.249	3.262	3.283	3.288	3.288	3.296	3.313	3.332	3.332
San Diego	2.753	2.758	2.762	2.758	2.739	2.716	2.716	2.723	2.734	2.754	2.771	2.783	2.798	2.810	2.816	2.825	2.825
Ventura	3.050	3.049	3.059	3.062	3.046	3.026	3.006	3.011	3.019	3.045	3.062	3.070	3.081	3.089	3.088	3.093	3.093

To varying degrees each county experienced a rise in the number of persons per household from 2000 through 2003. This partially reflects the loss of jobs that occurred in Southern California due to the recession of 2000-2001. In 2004 through 2007 the number of persons per household declined in part because of the faster rate of economic expansion and an increase in real per capita income as more individuals were able to secure higher paying jobs. Also, the ready availability of mortgage financing encouraged individuals to form new households by buying a home and occupying it.

Beginning in 2008 and continuing through 2016 there began a significant increase in the number of persons per household due to the loss of jobs that occurred during the Great Recession and the decline in real per capita income. In many cases foreclosures on residential mortgages also caused individuals to move in with others.

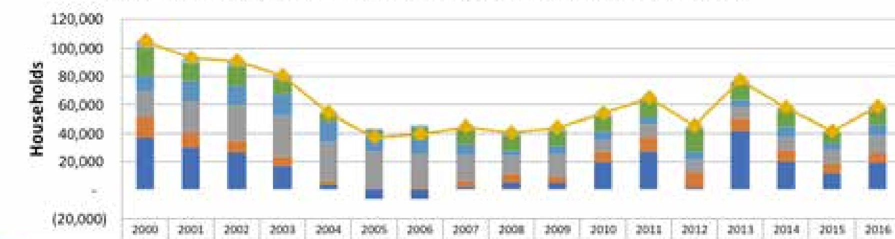
In addition to the short-term fluctuation caused by expansion and contraction of the economy there has been a general increase in the number of individuals per household over the 17-year period. While Los Angeles, Orange and Ventura counties experienced a moderate increase, San Bernardino, Riverside and San Diego counties realized significant increases in the average household population. During that period San Bernardino County increased from 3.169 to 3.332 and Riverside County went from 3.012 to 3.224. The primary cause was the decline in inflation adjusted median household and per capita income. Nominal wages and salaries have been relatively flat since the beginning of the Great Recession. When wages are adjusted for inflation those “real wages” have actually declined substantially for many workers. The decline in real household income that averaged 10.7% between 2002 and 2012 for the lower 90% of the U.S. households may be the primary suspect contributing to the long-term increase in the number of persons per household in Southern California from 2000 through 2016. Over the last year additional contributing factors appear to be the significant increase in household costs such as utilities, especially electricity, gas and water; the increase in sales taxes and income taxes; and the increases in expenditures for medical services and medical insurance adding to the economic squeeze on the middle class. Obamacare basically increased the insurance costs and out of pocket medical costs for young people and middle class working people in order to subsidize the medical insurance of lower income households and senior citizens. The 2017 federal income tax law eliminated the individual mandate for Obamacare; but the state of California is considering an insurance mandate requirement for young people.

The decline of real per capita income and an increase in mandated expenditures has caused many working-class families to reduce the amount they budget for housing. One method of reducing housing costs is to share a dwelling unit with one or more individuals. A second way is to move from a home into an apartment.

An estimate of the annual increase in the number of households for each county in Southern California and for the region was generated for **Figure 4** by dividing the increase in total population for each county and the Southern California region (excluding the population in group quarters) by the number of individuals per household in each geographical area. The estimated increase in the number of households in the Southern California region ranged from 104,700 in 2000 to 37,400 in 2005. During the subsequent 11 years the estimated addition of households in the region increased, reaching 58,400 in 2016. Household formations in San Bernardino County

Figure 4

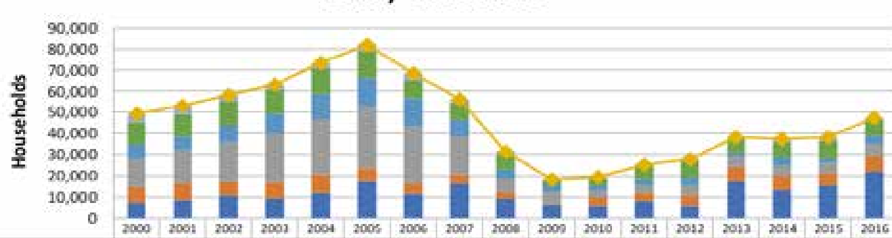
Estimated Increase in Households by County and in the Southern California Region Based on Population Increases 2000-2016



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Ventura	4,388	3,855	3,563	2,584	1,193	1,205	1,597	1,874	2,068	2,705	2,059	1,517	2,029	2,086	1,292	762	1,074
San Diego	19,790	12,613	13,560	10,298	4,789	3,607	8,304	10,912	11,089	10,306	9,998	11,610	15,882	11,963	11,619	7,747	11,234
San Bernardino	11,379	14,411	13,940	15,791	14,496	11,820	9,770	6,899	3,489	5,995	6,247	4,974	5,472	4,326	6,974	4,865	7,603
Riverside	18,061	21,863	24,961	28,078	27,399	26,891	24,551	18,231	12,957	15,723	8,016	8,775	9,377	8,751	9,124	9,676	12,378
Orange	13,460	10,103	8,297	7,206	2,981	4	1,542	4,740	5,657	4,499	7,745	10,788	10,942	8,242	8,263	6,963	6,709
Los Angeles	37,665	30,233	26,514	16,754	3,481	(6,161	(6,132	1,851	5,560	4,913	19,404	26,861	1,198	41,762	20,196	11,444	19,378
Southern California	104,743	93,079	90,835	80,711	54,339	37,367	39,632	44,507	40,820	44,140	53,470	64,526	44,900	77,130	57,468	41,455	58,376

Figure 5

Actual Annual Increase in Households by Southern California County 2000-2016



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Ventura	3,665	3,969	2,788	2,331	2,473	2,929	3,307	1,480	1,339	458	558	814	886	1,226	1,189	1,369	947
San Diego	10,654	10,700	11,787	11,713	12,111	12,463	8,315	8,105	6,794	2,120	3,410	6,004	7,725	6,289	7,915	8,573	7,694
San Bernardino	6,747	5,930	7,884	9,186	11,883	13,886	13,340	8,183	4,328	3,267	2,147	3,283	3,778	2,209	3,227	2,059	3,690
Riverside	13,437	16,166	18,333	22,930	26,456	29,107	27,070	17,835	6,390	5,754	3,737	3,388	4,642	4,343	5,115	4,704	5,561
Orange	7,212	7,720	6,566	7,412	8,274	6,009	4,564	4,235	3,025	935	4,186	3,631	5,419	6,892	6,646	5,873	7,498
Los Angeles	7,379	8,481	10,753	9,421	12,067	17,421	11,682	16,214	9,436	5,791	5,324	8,240	5,421	17,402	13,281	15,415	21,825
So. California	49,094	52,966	58,111	62,993	73,264	81,815	68,278	56,052	31,312	18,325	19,362	25,360	27,871	38,361	37,373	37,993	47,215

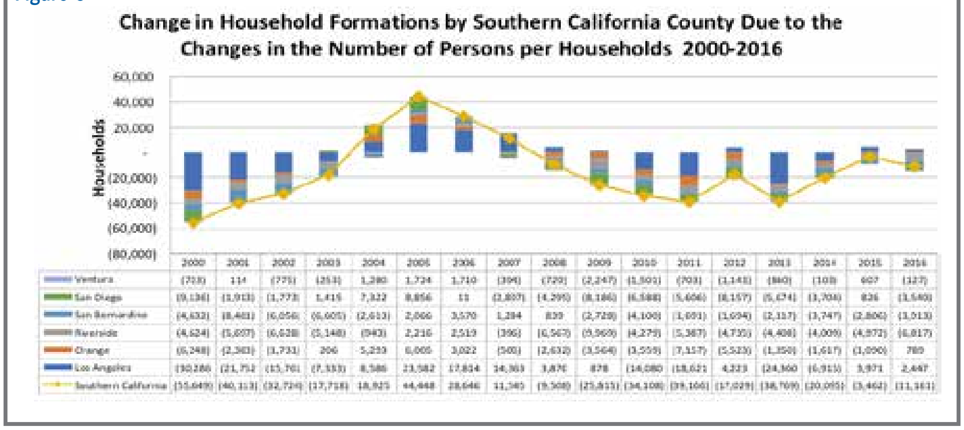
declined from 15,800 in 2003 to 3,500 in 2008. An estimated 7,600 households was projected for 2016. In 2003 Riverside County was projected to gain 27,400 households. This declined to 8,000 in 2010 before rebounding to 12,400 in 2016. The projected number of household formations for other counties followed similar patterns.

The California Department of Finance publishes data on the actual number of housing units occupied on January 1st each year. The changes in the number of occupied units from year to year provide an estimate of the increase or decrease in demand for housing units for each of the 17 years from 2000 through 2016. The results for the six counties in Southern California are reflected in **Figure 5,** which indicates 49,100 households were formed in the region in the year 2000. The rate of household formations peaked in 2005 at 81,800. For the next five years the annual increase in the number of household formations continued to decline. The number of units occupied increase by only 18,300 in 2009. During the next seven years there was an acceleration in the actual rate of household formations in Southern California, culminating with 47,200 new households being added in 2016.

Riverside and San Bernardino counties experienced a greater percentage reduction in the household formations than the other counties in Southern California. In both cases the increase in the number of additional households in less than 12% of the increase in housing demand at the top of the market in 2005. Los Angeles County experienced a substantial increase in the level of household formation in 2016 compared to the prior year. Los Angeles County realized an increase of 21,800 households, while San Diego and Orange counties both added 7,500 households.

Figure 6, which graphs the difference in the estimated annual increase in household formations for each county and for all Southern California over the 16-year period (Figure 4) compared to the actual household formations (Figure 5) illustrates the impact changes in the number of persons per household had on the level of household formations. For example, the estimated number of household formations in Southern California in 2000 was 104,700. The actual number was only 49,100. The difference of 55,600 was caused by a slight increase in the number of persons per household across the total population of Southern California because of the 2000-2001 recession. During the years 2004 through 2007 actual household formations were greater than expected because of the reduction in the size of the average household due to the increase in per capita income coupled with the easing of the underwriting criteria for residential mortgages enabled individuals to purchase a home and sometimes establish another household. In 2005, 44,400 more households were created than expected based on the growth in population.

Figure 6



The onset of the Great Recession had the opposite effect. Loss of jobs with the attendant decline in household income; combined with rigorous mortgage underwriting criteria and foreclosures resulted in the consolidation of households and the rise in the number of persons per household. Consequently, the number of actual household formations in Southern California in 2008 was 9,500 less than the estimated number based on the increase in population. The shortfall of actual annual household formations compared to estimates based on annual changes in population continued to increase as the effect of the Great Recession proceeded to unfold. The shortfall peaked at 39,200 in 2011; and the difference was 11,200 in 2016. If employment conditions and real household income levels in Southern California and the Inland Empire sufficiently improved the number of persons per household would stabilize. If the number of persons per household was the same as the prior year, there would be a substantially higher number of household formations in the region provided the growth in population remained the same.

Additions to the Supply of Housing

In 2000, the housing stock of Southern California increased by 60,700 units (**Figure 7**). The level of housing units completed each year consistently increased until 2005 when 100,400 units were added to the housing stock. In 2006, 90,700 housing units were completed. Between 2007 and 2009 the level of residential construction declined rapidly; and by 2011 the number of units delivered was only 16,700, which was 16.5% of the volume in 2005. Beginning with 2012 the number of residential units delivered increased between 6,000 or 7,000 units from the prior year. In 2016 a total of 50,271 units were completed.

The delivery pattern of residential units in Los Angeles, Riverside and San Bernardino tracked with the Southern California region. Los Angeles County, which added 11,000 units to its housing stock in 2000, reached 24,400 in 2005. In 2010 developers only completed 5,100 units. From 2012 to 2016 the number of units added to inventory each year increased from 9,300 to 23,200. Residential construction in San Bernardino County ramped up from 6,300 units in 2000 to 16,600 units in 2005 and 15,800 in 2006. By 2011 only 1,500 units were delivered. The number of residential units completed in the subsequent four years ramped up slowly reaching 3,900 units in 2016. Riverside County followed a similar pattern although with twice the level of activity. A total of 15,617 units were completed in 2000. The number of units delivered in 2005 reached 33,800; followed by 33,100 in 2006. The trough occurred in 2011 when only 3,100 units were completed. The level of units delivered increased from 2012 through 2016, when 6,300 units were finalized.

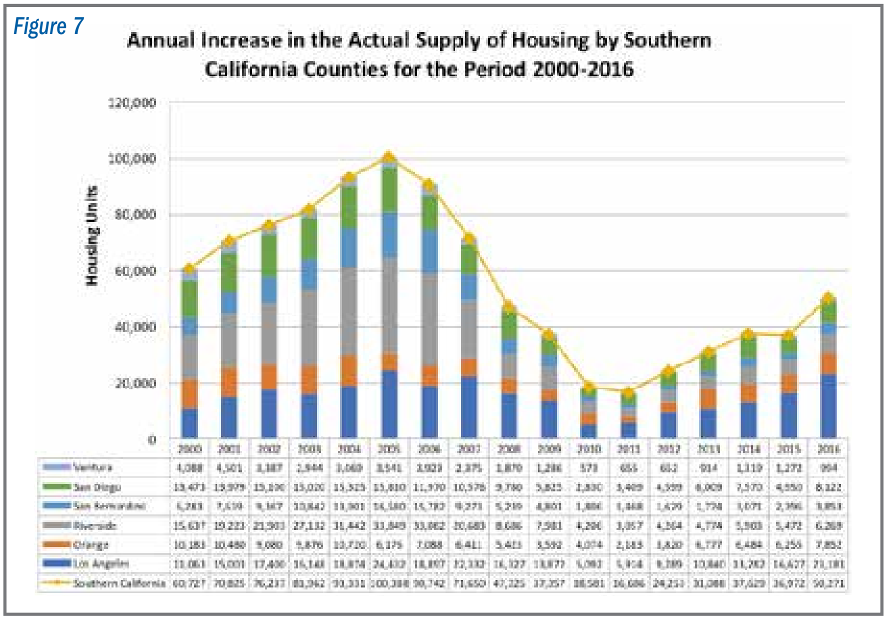
The delivery pattern for housing units in Orange, San Diego and Ventura counties differed somewhat from the Southern California region. Orange County began the decade with the construction of 10,200 units in the first year; and reached its maximum construction level of 10,700 units in 2004. For the next five years the annual increases to the supply of housing units ranged between 5,400 and 7,100 units before declining to 2,100 units in 2011. By 2016 residential deliveries in Orange County reached 7,900 in 2016. San Diego County added 13,500 units in 2000 and more than 15,000 units each year between 2002 and 2005. Thereafter its level of residential construction declined but at a slower pace than the other counties. A total of 3,400 units were completed in 2011. The number of residential units added in San Diego County progressed from 4,600 units in 2012 to 8,100 in 2016. The number of residential units completed in Ventura County peaked at 4,100 in 2001. Between 2003 and 2006 they ranged between 2,900 and 3,900. Before declining to Between 600 and 700 units in 2010 through 2012. Deliveries began to increase in 2013 reaching 1,000 in 2016.

Supply Versus Demand for Residential Units

Chart #15 determines for each county in Southern California and for the region whether the increase in demand for housing in each of the 17 years was greater than or less than the number of units that were added to the housing stock. The numbers in the chart are simply the difference between the actual changes in the number of occupied housing units in an area for each year less the number of residential units completed.

The results were surprising in that there was significant overbuilding in each county of Southern California between 2000 and 2009. From 2000 through 2009 between 9,400 and 19,200 excess housing units were built each year, which increased the vacancy level by a corresponding amount. The conventional wisdom presumes the excess vacancy was mostly created in 2007 through 2009 when many projects that were under construction were completed even though demand had waned. This analysis indicates additional vacancy was created in every year from 2000 through 2009. However, a portion of the increase in vacant units may have been caused by the addition of single-family homes, condos or apartments in areas like Palm Springs, the High Desert, the San Bernardino mountains and along the

Figure 7



coast that were "vacant" because they were a "second" home. In some cases, higher income individuals may have acquired or rented a "second" housing unit to reduce their commute during the work week. The demand for second homes and apartments may account for a significant portion of added vacancy. From 2010 through 2015 the number of units delivered each year ranged between 1,300 and 9,800 less than the increase in the number of households. Residential builders adjusted to the reduced level of household formations and the excess vacancy. In 2016 the completion of residential units exceeded household formations by 1,100 for the first time in six years. This is insignificant and suggests that the supply and demand for housing is in equilibrium. The rapid rise in rental rates and the decline vacancy rates to low levels in apartment projects of 50 units or more over the last five years as reported by REIS, a national research firm, confirms the excess vacancy that existed at the end of the Great Recession has been absorbed and Southern California and the residential markets are in equilibrium.

Figure 8

Annual Increases in the Supply of Housing Less Increases in Demand by Southern California County 2000-2016

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Riverside	1,488	2,174	2,569	2,950	3,541	3,153	4,534	1,874	1,947	1,913	265	(516)	(651)	194	509	511	404
Ventura	320	421	521	548	527	500	523	854	493	815	(1)	(182)	(250)	(346)	97	(135)	20
San Diego	1,119	2,776	2,708	2,757	2,645	2,362	3,162	2,090	2,667	3,605	(740)	(2,877)	(3,400)	(575)	(717)	(4,036)	47
San Bernardino	(777)	1,434	1,117	1,230	1,467	2,050	1,823	710	710	1,382	(441)	(1,967)	(2,324)	(538)	(306)	241	(8)
Orange	2,725	2,496	2,290	2,211	2,353	(88)	2,368	2,001	2,295	2,605	(215)	(1,572)	(1,764)	(350)	(189)	181	98
Los Angeles	3,390	6,184	6,218	6,351	6,320	6,317	6,740	5,472	6,515	7,850	(444)	(2,654)	3,652	(7,256)	(328)	308	486
Southern California	9,440	15,486	15,474	16,046	16,603	14,772	19,262	13,051	14,627	18,391	-1,616	-9,769	-4,836	-8,871	-1,334	-2,625	1,067

Single-Family Versus Multi-Family Units

Figure 9 recaps the percentage of multi-family units delivered each year between 2000 and 2016. In the year 2000 only 11.8 % of the units completed in Southern California were classified as multi-family. In 2016 multi-family projects accounted for 69.0% of units delivered. A substantial increase in the construction of multi-family developments began in 2010 with the start of the recovery from the Great Recession. By 2011, 55.1% of the units delivered in 2011 were multi-family. By 2016 multi-family units accounted for 68.9% of the additions to the housing stock. In Los Angeles County the proportion of newly constructed units classified as multi-family was 89.5%. In San Diego it was 73.9%; in Orange County it was 58.2%; and in San Bernardino County multi-family represented 43.2% of the units delivered, almost all of which were in the Los Angeles Basin. Riverside County was an exception in that only 20.2% of the housing units completed were multi-family.

Throughout Southern California a total of 53,600 single-family residential units were constructed in 2000 compared to 7,100 multi-family units. In 2016 only 15,400 SFR units were completed compared to 34,700 multi-family abodes. There was a definite shift to multi-family in response to a change in housing preferences. During the year 2000, 60,700 units of all types were built. In 2016 the number of delivered units had increased to 50,100.

Some of the shift in demand to multi-family units is locational. The lack of undeveloped land in Los Angeles, Orange, and San Diego counties has resulted in most new residential development being multi-family, either because of zoning or very high land costs. The high cost of purchasing several parcels of land and tearing down the single-family homes that exist on them results in high land costs that must be allocated over many multifamily units to make the development economically viable. Such locational shifts in product mix tend to be permanent.

In some cases, the shift to multi-family reflects a decline in per capita personal income resulting in fewer individuals being able to afford to own a single-family home. The loss of jobs during the Great Recession and the lack of increases in the real wages since the recession have compelled some individuals to live in an apartment because they cannot afford the cost of living in a single-family home. For some this may be a temporary shift in preference. As the economy continues to improve and wages and salaries increase there likely would be a gradual and partial shift in the demand for housing back to single-family homes, especially in the Inland Empire. However, unless there is a major shift in economic and demographic growth trends, a significant segment of the recent shift in demand to multi-family units is likely to be permanent, because some tenants will not be able to participate in future wage and salary increases.

Millennials as a group have deferred getting married and having children because of the difficulty of obtaining well-paying jobs. Many have been content to live in apartments close to their place of employment, thereby reducing their housing and commuting costs. Apartment living also enables them to be close to the urban entertainment centers and it provides them with the flexibility to change jobs and relocate to a different geographical area if necessary. For many the added cost of owning a single-family home is not justified until they have children. Hence, for some millennials the ownership of a single-family home may just be delayed a few years until they have the income and a reason to purchase one. Such cohort behavior would postpone the demand for single family housing in Southern California until the millennials become older and financially successful. There have been some national trends suggesting millennials have recently become more interested in purchasing single-family homes. A portion of the millennials and older individuals may not participate in the economic recovery and may not be able to have sufficient income and wealth to afford a single-family home. They will continue to be tenants in multi-family units or even single-family homes.

The Dynamics that Caused the Housing Bubble of 2002 through 2006

The tremendous increase in both the demand for single-family homes and home prices that occurred in the Inland Empire and the High Desert beginning in 2002 and ending in February 2006 is primarily the result of the federal government's policy to encourage home ownership. The banking regulators in conjunction with Fannie Mae, Freddy Mac and the Federal Housing Administration (FHA) coerced financial institutions to make home loans to individuals who historically would not have qualified for mortgage financing to purchase a home. By the end of 2005 an estimated 3 million households that historically would have been renters became home owners. This created a housing bubble that peaked in early 2006 and burst in 2007, triggering the Great Recession.

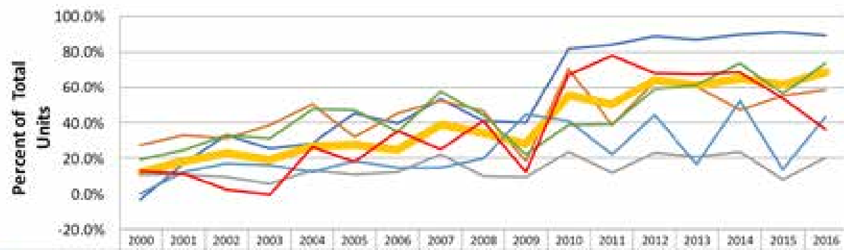
This incredible jump in the demand to own single-family homes, which was not anticipated, caused developers to scramble for land, employees or sub-contractors to build residential units. Despite their efforts demand for new homes greatly exceeded supply causing home prices and land values to accelerate from 2002 through the 2005.

The Southern California region did not experience an extremely rapid rate of home price appreciation until the beginning of 2002, because of the drop-in interest rates; the start of the economic recovery and most importantly the federal government's policy to increase the percentage of home ownership in the U.S. by making it easy for individuals to qualify for mortgage financing. There was a 200-basis point drop in the 10-yr Bond rate and a parallel decline in mortgage rates from 2002 through June of 2006.

As renters saw other people realizing substantial profits through home ownership they wanted to own a home and the federal government enabled them to do it. The investment component of owning a home became paramount, which further added to the demand for single-family homes. From 2002 through 2006 many of the buyers of such units in the High Desert were first time buyers who could not afford to own a home in the Los Angeles Basin. They were willing to commute to work on Interstate15 through the Cajon Pass, because this was the only way they could own a home. This transferred a substantial portion of the demand for single-family homes from the Los Angeles Basin portion of San Bernardino County to the High Desert. From 2004 through 2006 an estimated 5,500 to 7,500 residential units were constructed each year, most of which were single-family homes. The average sales price for existing single-family homes in the Victor Valley Area was $103,000 in the 1st Quarter 2001. By February 2006 the average sales price was $333,000.

Shortly thereafter, the air began to come out of the housing bubble. At first, the decline in home values was modest; but it accelerated as mortgage lenders foreclosed and sold the properties in their REO portfolios. The demand for housing and home values in the Inland Empire and the High Desert fell dramatically as illustrated in **Figure 10**. By August 2009 the average price had declined to $113,000, which was 33.9% of the average sales price at the peak. Home prices remained flat until the summer of 2012. Thereafter, the Victor Valley area and the Inland Empire began a sustained recovery from the Great Recession that has continued through 2017. All the excess vacancy in residential units in 2011 was absorbed as new households were formed in in the Inland Empire and the High Desert.

Figure 9 **Multi-Family Units as a Percent of Total Housing Units Delivered Each Year in Southern California by County 2000-2016**



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Los Angeles	-3.3%	16.9%	32.9%	25.2%	27.9%	44.9%	39.2%	53.1%	41.0%	39.8%	81.8%	84.0%	88.9%	86.9%	90.0%	91.0%	89.5%
Orange	27.3%	32.6%	31.1%	38.3%	50.2%	31.7%	45.1%	52.2%	46.5%	18.0%	70.4%	38.3%	63.1%	60.4%	46.9%	54.8%	58.2%
Southern California	11.8%	18.2%	22.6%	19.1%	26.4%	27.5%	24.7%	38.7%	34.1%	28.0%	55.1%	49.8%	63.9%	61.4%	65.0%	61.6%	68.9%
Riverside	10.7%	10.8%	9.3%	5.4%	13.2%	10.6%	12.1%	21.8%	9.6%	9.1%	23.3%	11.7%	23.2%	20.6%	23.3%	7.9%	20.2%
San Bernardino	-0.2%	12.2%	17.0%	15.9%	12.2%	18.2%	14.5%	14.5%	19.8%	44.4%	41.0%	21.9%	44.1%	16.4%	52.2%	13.4%	43.2%
San Diego	19.3%	24.4%	33.0%	30.9%	47.6%	47.1%	34.5%	57.4%	43.9%	21.8%	38.5%	38.8%	58.5%	61.4%	74.0%	56.3%	73.9%
Ventura	12.5%	11.0%	2.1%	-0.7%	26.2%	17.8%	35.0%	24.9%	41.0%	12.1%	67.4%	78.2%	68.1%	67.8%	68.8%	53.5%	36.3%

By December 2017 the average price of existing single-family homes in Victor Valley had climbed to $246,000, which was 73.9% of the prior peak in home prices. The average sales price of a single-family increase 11.0% during 2016 and 5.6% in 2017. Since September 2017, home prices have declined 4.1%, which is most likely due to the typical seasonal variation. September closing reflects mid-summer home prices. During 2018, home prices in Victor Valley will likely increase approximately 5%.

Today, there is no housing bubble in the High Desert. When the average sale price at the end of 2017 is adjusted for the increase in the consumer price index (CPI) between June of 2006 and December of 2017 the average sales price would be $200,245 or 60.1% of home values at the peak of the last real estate cycle. **See Figure 11**.

According to REIS and CoStar, apartment rents in the Los Angeles Basin, which have been increasing at 3% to 5% per year for the three-year period ending in 2016, have slowed down in 2017. Rents in many areas of the Los Angeles Basin have been relatively flat in the second half of last year, even though vacancy levels are low in the B and C unit apartment complexes and have declined in the case of A level residential projects. This suggests there is an affordability issue related to what households can afford for housing in Southern California. According to CoStar rents for apartments units in the High Desert have increased 18% from the beginning of 2015 through the end of 2017. Most of the increase occurred in 2016 and in the first half of 2017. Rents in the Victor Valley area stabilized in the second half of last year.

Future Demand for Single-Family Homes in Riverside and San Bernardino Counties

In San Bernardino County the median price for existing homes declined from $348,900 in 2006 to $121,700 in May 2009. By year-end 2017 it climbed to $359,900. This is reflected in **Figure 12**. The 2018 forecast by Chapman University was the data source for this chart. Median home prices in California increased from $407,500 in 2013 to $536,200 in 2017 and it was forecasted to increase by 6.0% to $568,400 at the end of 2018. Over the same period, the median home prices in the Inland Empire appreciated from $242,900 to $337,900. The Chapman University forecast calls for a 6.5% increase to $359,900 by the end of 2018. Since 2015, the percentage increase in median home values in the Inland Empire was greater than the United States and California. Chapman University projected this trend would continue in 2018.

Figure 13 compares the total number of residential units and single-family units delivered annually in the Inland Empire from 2013 through 2016. It also summarizes the actual and projected number of units that were permitted in the Inland Empire as reported in the Chapman University Forecast. Permits are typically issued one to two years before homes are delivered; it is informative to compare the level of permits issued one and two years prior to the units delivered in subsequent years. For example, in 2014, permits were issued for 10,141 total units and 6,944 single-family units. Two years later, 10,122 total units and 7,004 single-family units were completed. The Chapman University forecast projects 10,100 to 14,800 residential units would be completed between 2017 and 2020 of which 7,700 to 10,685 would be single-family homes.

This provides an estimate of the level of single-family and multi-family completions in Riverside and San Bernardino counties, which is consistent with the outlook that as the Southern California economy continues to expand and the millennials age and have children, the demand for new single-family homes in the region should increase substantially from the depressed level of 15,400 units in 2016. On the other hand, it is extremely unlikely the demand for single-family units will approach the 53,700 units absorbed in the Year 2000, because of the shift in demand to multi-tenant units and the decline in real wages amongst the lower 90% of the wage and salary workers. Nevertheless, the absorption of 18,000 to 25,000 single-family homes a year in Southern California has a 50/50 chance of occurring within the next five years, provided the underwriting criteria are relaxed somewhat from what is in place today to offset the rise in mortgage interest rates. A second condition is the federal and state rate of economic growth rate averages more than 3 percent between now and the year 2023.

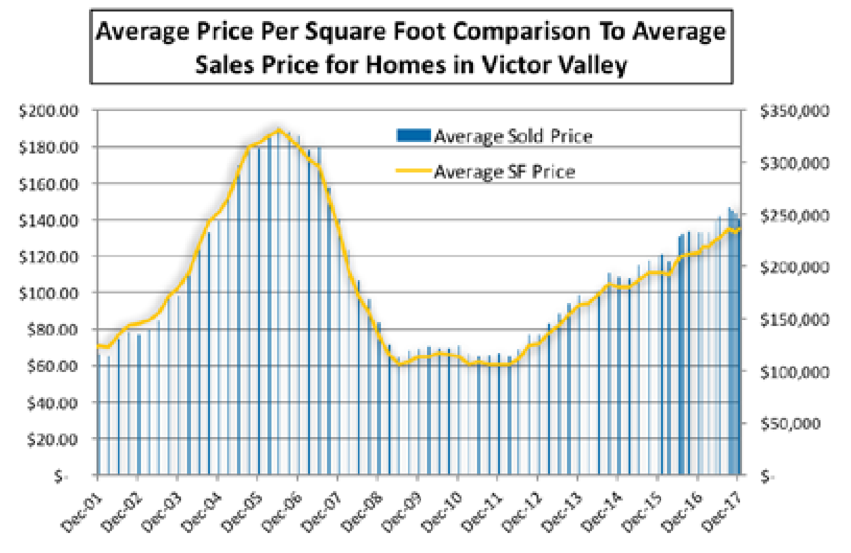
Under such an economic scenario, at least half of these units (9,000 to 12,500) could be built in the Inland Empire. Riverside County would likely capture 70% to 80% of the SFR sales over the next five years because it has substantially more undeveloped land in the Los Angeles Basin zoned for single-family residential use that is closer to major employment centers. Therefore, in San Bernardino County the annual increase in demand for single-family units during the next five years would likely range between 2,000 and 3,500 units. This compares to the 2,100 single-family homes that were absorbed in 2016. Riverside County may absorb 7,000 to 9,000 single-family homes per year compared to the 4,900 units delivered in 2016.

Increased Demand for Residential Units in the High Desert

The increase in demand for housing in the High Desert is driven by four factors. The first is the growth in base and secondary employment in the High Desert. As discussed in the industrial article in this issue of Market Watch, the completion of Big Lots 1.35 million SF warehouse and distribution center will create 500 base employment jobs and an equal number of secondary jobs resulting in a demand for an additional 600 dwelling units. The cultivation of cannabis for medical use also creates base employment as does the expansion of aerospace firms at SCLA. The absorption of 600,000 SF of industrial space this year by cannabis cultivators is also expected to create 500 base employment jobs that would increase the demand for housing by another 600 units. Almost all the workers at such firms would live in the High Desert.

The level of industrial development in the High Desert is expected to accelerate between now and the year 2028 as industrial land in the Los Angeles Basin portion of the Inland Empire becomes scarce and the cost of industrial land escalates. While the High Desert has absorbed between 500,000 and 1,000,000 SF of industrial space per year over the last decade, it will likely ramp up to 5 times that level in the second half of the next decade. The absorption of 5 million SF of warehousing and distribution space in one year would increase the demand for housing by 2,500 units. The annual absorption of industrial space in the City of Adelanto could ramp up to 2 million SF over the next five years. If this were to occur, it would add 2,000 units to the demand for housing in 2023. Both industrial uses combined have the potential to support enough households to absorb 4,500 housing units in 2023. In 2005 an estimated 7,500 were absorbed. The expansion of the industrial base in the High Desert would increase the demand for both single-family homes and apartments in the area.

Figure 10



The second factor that contributes to the demand of housing is the migration of households to the High Desert from the Los Angeles Basin, so they can afford to purchase a home in a nice neighborhood. Typically, one or more members of those households would commute south on the I-15 freeway through the Cajon Pass to work in the Los Angeles Basin. In 2003 through 2005, households relocating to the High Desert from the Los Angeles Basin probably added between 3,000 and 5,000 units each year to the demand for housing in the High Desert. Between 2012 and 2015 the population of the High Desert increased by 2,000 per year; and it likely increased by 3,000 to 4,000 per year in 2016 and 2017. A population increase of 2,000 would increase housing demand by 600 units. An increase of 4,000 would increase the number of households by 1,200. An estimated third of the increase may be attributed to households migrating from the Los Angeles Basin, which would have added 400 households to the demand for housing last year.

Figure11

COMPARISON OF VICTOR VALLEY HOME PRICES AT THE PEAK, THE THROUGH AND YEAREND 2017 ADJUSTED FOR INFLATION

Month of Sale	Average Sales Price	Percent of The Peak	U.S. Urban CPI -All Items	Inflation Factor	Sales Price In June-06 Dollars	Percent of The Peak
Jun-06	$ 333,000	100.0%	201.80	1.000	$ 333,000	100.0%
Jun-09	$ 113,000	33.9%	214.73	1.064	$ 106,198	31.9%
Dec-17	$ 246,000	73.9%	247.91	1.228	$ 200,245	60.1%

As the economy of the United States, California and the Inland Empire expands, and household and per capita income rise because of more full-time employment and wage and salary increases, the millennials and older middle-aged workers are expected to enter the market for single-family homes. The High Desert is one of the few areas in Southern California that could deliver affordable single-family housing units to the millennials. If the U.S. and California's economy only expands by 2% annually over the next five years, perhaps 400 to 600 households would migrate to the High Desert. If the real growth rate exceeded 3%, the number of household that would relocate to the High Desert could easily double.

The third factor contributing to the demand for housing in the High Desert are individuals that retire in the High Desert. They directly add to the demand for housing and create population supporting secondary employment. The High Desert is ideally suited for the development of senior oriented single-family development communities. Individuals who live in the Los Angeles Basin can migrate to the High Desert after they retire and still be close enough to visit with family and friends in Southern California. The Del Webb development at Jess Ranch in the Town of Apple Valley has been a very successful development as evidenced by the sale of units even during difficult economic times. It is also a very architecturally attractive community. Home prices are relatively inexpensive compared to similar units elsewhere in the Los Angeles Basin because of the low cost of land. Senior retirement housing is not dependent on the growth of employment in the area; yet the construction of such housing could contribute to the High Desert economy even in a recession. It would seem more senior housing would be a desirable land use for the High Desert, and the development of a Del Webb type project will require collaboration with local government to reposition existing, low density single-family residential zoning, to accommodate high density senior communities.

The fourth driver of housing demand are households composed of pre-retirement age individuals in which the primary source of financial support is derived from welfare benefits. Such households are attracted to the High Desert, because it is the low-cost living and housing solution. Over the last 20 years many subsidized housing projects were built that provided below market rate apartment units. HUD provided low interest rate loans, the state provided tax credits and the local cities, and the county used redevelopment funds to finance these projects. Most of the large residential apartment projects delivered over the last two decades was subsidized housing. When the state of California eliminated the redevelopment agencies, the cities and counties no longer had the funds to finance below market rent apartment projects. The last such project in the High Desert was a two phase 200-unit project in the City of Hesperia. The second phase of approximately 100 apartments will be delivered in 2018. Individual homes and apartment units can also be rented as Section 8 housing units.

The excess vacancy in the High Desert has been absorbed and the demand for single-family homes continues to increase. Prior to 2016 there was little residential development in the High Desert. A limited number of units were built in the Dell Webb Section of Jess Ranch; and a few contractors started building one-off homes on infill single-family lots. When these units were sold in 2016 at a profit, the development of infill lots accelerated along with the price of lots in 2017; merchant builders started construction on five single-family projects in the Victor Valley. In 2016 Del Webb started construction on a 470 unit single-family senior housing project. More individual homes were completed on infill lots and sold at a profit. During 2017 the price of infill lots almost doubled in value. The increase in construction activity over the last year is evidence the sales price per square foot for a new home has increased sufficiently to justify new construction. Also, some merchant builders who are active in the Los Angeles Basin have recently purchased residential land in the High Desert. This trend is expected to accelerate.

The purpose of this analysis was to estimate the demand for single-family and multi-family units in the High Desert over the next few years. Hence, demand reflects when the units would be purchased or rented and then occupied rather than permits issued, construction starts or delivery of units. There typically is a two-year lag between the pulling of a permit and the occupancy of the unit. Second, there is a substantial disparity in the forecasts related to the real growth rate of the U.S. economy and the California economy over the next three years. The economists in the WSJ survey are forecasting an average rate of growth closer to 2.0%, while the administration and others are touting 3% or more. Consequently, two estimates have been generated for the growth in housing demand for San Bernardino housing and the High Desert. The more conservative estimates reflect a national growth rate around 2%, while the more optimistic estimates assume a real annual growth rate of 3%.

Under the conservative economic scenario, the ramp up in the sale of single-family residential units would be towards the lower end of the range of estimates, which were 500 units in 2018, 800 units in 2019 and 1,200 units in 2020. Annual single-family home sales in San Bernardino County would likely be closer to 2,200 units in 2020. If the economy accelerates at a higher rate of growth (GDP) exceeds 3.0% on a sustained basis), resulting in a substantial number of the part-time jobs being converted to full-time employment; and the lower 90% of the U.S. households by income participate more in the expansion, then the number of persons per household could stabilize resulting in a much higher level of household formations and an increased preference for single-family homes. New single-family home sales in the High Desert could approach 800 units in 2018, 1,400 units in 2019 and 2,000 units in 2020. Under this optimistic scenario annual single-family home sales in San Bernardino County could reach 3,000 units in 2020. The level of multi-family units delivered in San Bernardino County would be about the same for both economic scenarios, because higher household incomes would shift the demand to single-family homes. The number of additional multi-family units occupied in the San Bernardino County was estimated to be 1,200 in 2018, 1,400 in 2019 and 1,600 in 2020.

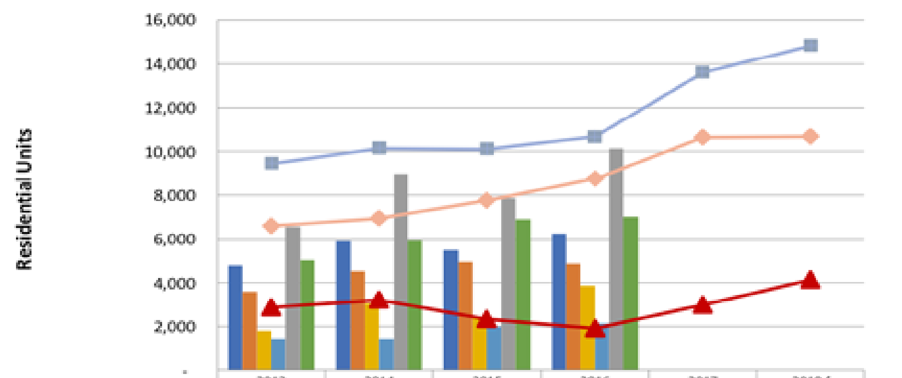
The level of multi-family development in the High Desert is expected to remain fairly low for the next couple of years. An additional 100 units of subsidized housing will be delivered in Hesperia in 2018 and approximately 200 units of market rate apartments will be delivered and occupied the same year. It is not likely the private sector will be delivering additional apartment units before 2020, because apartment rents are below the level required to make apartment development economically viable. This is the short-term outlook.

The increase in the demand for housing in the High Desert a decade from now could approach the 7,000 units per year that occurred between 2003 and 2005. The absorption of 5 million SF of industrial space a year would add 2,500 units to the demand for housing. The absorption of 2 million SF of industrial space each year by the cannabis cultivators would add 2,000 units to the housing demand. The migration of 1,500 households a year that have at least one person who commutes to the Los Angeles Basin would add another 1,500 units and the retirement of 1,000 families to the High Desert a year would increase the demand for housing by 1,000 units. The total annual increase in housing demand would be 7,000 units. A decade from now there is a 50/50 chance the High Desert could be absorbing housing units at the same rate it did in the three years before the peak of the last building cycle and it would not be a bubble. It would be the natural expansion of the Southern California region. The long-term residential and industrial growth potential of the High Desert is comparable to the growth potential of the Ontario-Rancho Cucamonga area 30 years ago.

Figure 12 **Existing Single Family Home Prices and Annual % Increases for the U.S., California and Inland Empire 2013 - 2018**

	2013	2014	2015	2016	2017	2018 f
United States Prices	$195,900	$207,100	$221,400	$233,600	$247,000	$261,200
California Home Prices	$407,528	$448,670	$475,668	$501,960	$536,166	$568,366
Inland Empire Home Prices	$242,971	$273,404	$289,923	$312,087	$337,876	$359,886
U.S. % Increase in Prices	11.5%	5.7%	6.9%	5.6%	5.7%	5.8%
CA % Increase in Prices	26.8%	10.1%	6.0%	5.5%	6.8%	6.0%
Inland Empire - % Increase	27.9%	12.5%	6.0%	7.6%	8.3%	6.5%

Figure 13 **Total and Single Family Home Permits and Deliveries for the Inland Empire, Riverside and San Bernardino Counties 2013 - 18**



	2013	2014	2015	2016	2017	2018 f
Riverside Total Res. Units	4,774	5,903	5,472	6,269		
Riverside SF Units	3,587	4,510	4,946	4,877		
San Bernardino Res. Units	1,774	3,071	2,396	3,853		
San Bernardino SF Units	1,447	1,447	1,973	2,127		
Inland Empire Res Units	6,548	8,974	7,868	10,122		
Inland Empire SF Units	5,034	5,957	6,919	7,004		
Chapman IE Res. Permits	9,456	10,141	10,108	10,659	13,615	14,834
Chapman SF Permits	6,590	6,944	7,760	8,745	10,639	10,685
Chapman MF Permits	2,866	3,197	2,348	1,914	2,976	4,149

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rents ranging between $0.60 to $0.85 per SF. Nevertheless, actual effective rents are still below the level required to support new construction; however, 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 2017. According to CoStar, there were 24 sales of which 6 involved a price less than $500,000. The total dollar volume for this category was $2,252,345; and the average sales price was $321,764. There were 4 sales with a sales price between $500,000 and $1,499,999. The total dollar volume for this group was $4,387,500. The average price was $1,096,875. There were 12 sales between $1,500,000 and $4,999,999. The average sales price in this group was $2,618,500. There was one sale in the $5,000,000 to $9,999,999 range. It sold for $5,170,000. There were no sales above $10 million.

The three highest sales prices for industrial properties were all in Adelanto's marijuana cultivation zone. The first was an 18,270 SF industrial building at 16585 Beaver Road and commanded a price of $5,170,000 or 282.98 per SF. A 34,534 SF industrial building at 9486 Holly Road in Adelanto sold for $4,300,000 or $124.52 per SF. The date of sale was December 11, 2017. This was the second highest industrial sales price in the High Desert during 2017. The transaction with the third highest priced sale was for a 33,540 SF property at 9924 Rancho Road in Adelanto. The sales price was $4,000,000 or $119.33 per SF of building floor area. The date of sale was September 21, 2017.

The total consideration for all 24 transactions was $43,231,845 and the median building size was 12,000 SF. The median sales price was $1,500,000; and the median sales price per SF was $114.36 The price per SF ranged from $43.18 to $282.98.

Conclusions

Big box users and 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.

Sometime in the next eight to fifteen years, land prices and therefore rent levels in the Los Angeles Basin will increase sufficiently to cause a substantial shift in demand for industrial space in the High Desert. This would be driven by the lack of raw land zoned for industrial uses in the Los Angeles Basin. When this shortage of land materializes, the net absorption of industrial space could exceed 5 million SF per year and generate over 2,500 base employment jobs in the High Desert.

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. In a few years it is conceivable the annual net absorption of industrial space for the cultivation of cannabis could exceed 2 million SF, which would create 1,600 to 2,000 base employment jobs each year. Unlike the projections for the absorption of big box industrial space in the High Desert, the future absorption estimates for cannabis cultivation are not based on the extrapolation of historical trends and therefore are not as reliable.

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 Medical Marijuana Cultivation zones to other industrial areas in the City of Adelanto and to 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. This is a trend that is likely to continue.

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

Cover Article cont. from page 1

Inland Empire, Los Angeles County and Orange County. The High Desert continued to have limited housing inventory with less than three months of inventory. In past expansion cycles, speculation in the housing market has led to overbuilding. However, the limited availability of financing for speculative building as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act may restrict overbuilding, and lend to conservative and responsible development. While a possible silver lining for the housing market, the limited availability of capital extends? to and limits commercial development.

With the legalization of cannabis in California, and the adoption of cannabis zoning by the City of Adelanto, new deliveries of Industrial space has increased significantly. Additionally, Stirling Development's success in leasing space at Southern California Logistic Airport has resulted in the delivery of additional large format Industrial buildings.

Retail development continues to expand, centered in or near regional power centers, with a majority of new construction concentrated in Hesperia and Victorville, California. Retail development is expected to continue expanding in 2018. New construction in the Office sector remains limited to end users, with nominal new product.

Interest rates are anticipated to gradually increase through 2018, however, the Federal Reserve's rate hikes in 2017 had no discernable impact on the residential or commercial markets. With a strong economy, low unemployment, and a healthy real estate market, the High Desert is positioned to experience a decline in vacancy rates, an increase in lease rates and property values, while delivering new product through 2018.

For an in-depth analysis of each sector of the High Desert's real estate market, contact Coldwell Banker Commercial to receive a complimentary copy of their annual High Desert Market Watch.

Multi-Family Report cont. from page 5

In the end, all financial indicators and projections trend toward continued growth at a slow and steady pace. Victor Valley apartment investors have seen some of their best returns in a decade as the Victor Valley communities continue to experience steady growth and the future continues to show positive predictions for the Multifamily sector through 2018.

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inflation rates are falling rapidly in retailing due to online sales and the switch from national to house brands. He also notes cell phone service costs, print media revenues, financial service fees, health care expenses, and education costs are declining.

There are several reasons why some economists believe wage and salary increases will continue to be moderate. For one, the U.S. labor market has substantially more slack than that suggested by the headline unemployment rate (U-3), which is why wages remain restrained. U-3 is the ratio of those actively looking for work to that group plus the people who are employed. Consequently, the unemployment rate declines if more are employed but it also falls if fewer are looking for jobs. The latter has dominated in recent years, as shown by the big drop in labor participation rates, which peaked at 67.3% in early 2000 and fell to 62.4% in September 2015. An estimated 60% of that decline was due to retiring postwar babies. The remaining 40% was composed of those under 35-years-old who stayed in school in the hope that more education would improve their job prospects in the weak job atmosphere initiated by the 2007-2009 Great Recession, and of those 35-to-64 who gave up looking for work in that tough employment climate. Many of those who dropped out of the workforce may well be drawn back to work by expanding job opportunities. At the same time, people over 65 who are employed or actively looking for jobs has been rising since the early 1990s. Others, have been notoriously poor savers throughout their lives and need to keep working due to lack of retirement assets. Because of these developments at the young and old ends of the age spectrum, the total labor participation rate appears to have bottomed out as evidenced by the fact it rose slightly from 62.4% to 63.1% from September 2015 to this September 2017. There is also a substantial amount of slack in the labor markets of other countries in the world. Unemployment rates in most countries are still above prerecession levels. In the eurozone, the European Central Bank (ECB) counts 15% of workers as underemployed or unemployed. In India and the Far East, there is also a substantial amount of underutilized labor and capacity available, which because of globalization and the internet competes with U.S. employees for work.

Another wage-restraining force in economic recovery is the job-creation emphasis on low-wage U.S. jobs. It's been in low-paid sectors such as retail trade and health care where many more people have gained jobs since the depths of the Great Recession. The effect of different sector employment growth has been to retard average wages. Even within industrial sectors, wages have been depressed as postwar babies at the top of their pay scales retire and are replaced by lower paid new recruits. With globalization eliminating U.S. manufacturing jobs and cost-cutting pressure on those that remained, union membership in the private sector has declined from a quarter of the total workforce in 1973 to 6.4% in 2016. This has depressed wages, because on average private union jobs pay 19% more than non-union positions in base pay and over 50% more when health care, retirement and other benefits are included.

The proliferations of gig workers as the private contractors' model is used to reduce company costs, provide more flexibility and cut back on management problems. Some 57% of independent workers have household incomes below $30,000 per year and 45% hold those jobs to control their own schedules.

While wages and salaries are expected to increase in the United States over the next few years, it is not expected to add substantially to the rate of inflation and dramatically accelerate the rise in interest rates by the Fed. Mortgage interest rates and cap rates will likely rise between 100 to 150 basis points over the next two years; so investors will have to determine if a project's NOI will increase sufficiently to compensate for the expected rise in the interest rates and cap rates.

The composition of the Board of Governors, which determines the federal funds rate, could be changing over the next year. President Trump appointed Jerome Powell as Chairman of the Federal Reserve Bank. Powell has supported former chair Janet Yellen's cautious approach to raising interest rates. In the coming months, the President could appoint three more of the seven Fed governors. Depending on who he appoints that body may become more concerned about growing the economy than fighting inflation. This could mitigate the increases in the federal funds rate.

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

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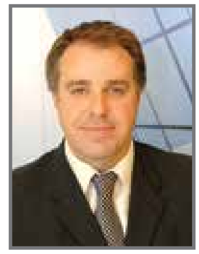

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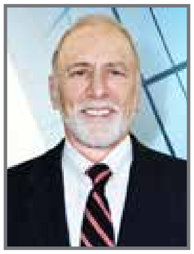

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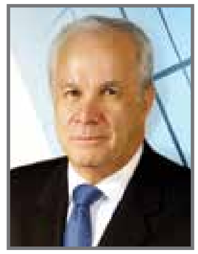

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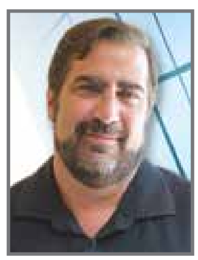

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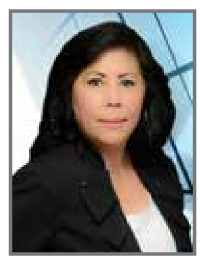

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