



4th Quarter 2019
Year in Review

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Industrial:

At SCLA Aerospace company **Exquadrum** has announced the signing of a 40,000 square-foot lease with option to buy a 66,000 square-foot building with **Sterling Development. Victor Valley College (V.V.C.)** will be a co-tenant in the building that will be used to establish a regional training center. It has the potential to expand V.V.C.'s **SCLA School of Aviation.**

Office:

Kaiser to open a three story 54,000 square foot state of the art medical facility in Hesperia of 2021. It will feature a pharmacy, laboratory, diagnostic imaging, nurse clinic, conference center, optometry and optical dispensing. This is in addition to 30 provider offices, family medicine, internal medicine, pediatrics, OBGYN physical therapy, cardiology, and primary/ specialty care services.

Retail:

Aldi to be anchor tenant for new shopping center on Bear Valley Rd. in Hesperia. **Panera Bread** to be included. Traffic expected to increase with the new development, as such infrastructure of the surrounding intersections is planned.

Transportation:

Stoddard Wells Rd. interchange completed. **Brightline** announces partnership with **Virgin. Brightline** to be called **Virgin Trains USA.** High Speed Rail connecting the High Desert to Vegas is expected to create 10,000 jobs, similar to the project in Florida.



Kaiser Clinic Under Construction, Hesperia, CA - Lee & Associates



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INDICATORS AT A GLANCE

GDP Growth

2019 growth will be 2.3%; 1.8% in 2020

Interest Rates

10-year T-notes staying around 2% until trade war ends

Inflation

2.2% in '19, 2.0% at end of '20

Unemployment

At 3.6% at end of '19, 3.8% at end of '20

Inventories

Declining late '19 and first-half '20, reducing GDP growth by 0.2%-points

Trade

Trade deficit widening by 7% in 2019.



Landlord Alerts

Information Provided by Kimball, Tirey & St. John LLP

AB 74 Budget Act of 2019: Allocates \$20,000,000 to provide eviction defense or other tenant defense assistance in landlord/tenant rental disputes, including pre-eviction and eviction legal services, counseling, advice and consultation, mediation, training, renter education, representation, and legal services to improve habitability, increase affordable housing, ensure receipt of eligible income or benefits to improve housing stability, and homelessness prevention.

AB 827 Recycling Bins: Requires businesses (including multifamily residential properties with 5 or more units) previously subject to recycling laws, to provide customers with a recycling bin or container that is visible, easily accessible, adjacent to each trash container (except in restrooms), and clearly marked with educational signage as of July 1, 2020.

AB 5 Codifies the ABC Test: Determines whether California workers are employees or independent contractors. Vague wording has led to concerns of freelancers leaving the state and the costs of conforming to the law costing employers 30% more due to premiums, compensation, administrative as well as other costs; or face a fine of \$5,00 to \$25,000 per violation.

Prop 13 Split Property Tax: Commercial properties would be re-assessed every 3 years and taxed at their current market value. The increase on lessors could be passed on to the lessees. Costs for businesses and services can go up. Such a change could lead to residential (home owners) being affected in the future. The change is projected to generate \$6 billion to \$10 billion annually, 40% of which is earmarked for schools. Increased cost of living is a concern.

High Desert Market at a Glance

Activity in the industrial sector continued to be steady across every size range. For 2019 vacancy in most sub-markets continues to be low, and prices and lease rates have recovered to pre-recession rates. Like the first half of the year, much of the activity was accounted for by investor purchases and tenant renewals. 1031 Exchange buyers continue to accept lower cap rate deals in order to take advantage of high sale prices they are receiving for properties being sold in the more urbanized areas of California. Owners/users are in the market for existing properties looking to take advantage of the lower interest rates currently available. As the market continues to improve and inventory becomes limited lease rates and sale prices will steadily increase. Currently the High Desert median lease rate is at \$0.70 per square foot modified gross for industrial and a \$1.06 per square foot modified gross for office. This year looks to be a good year for commercial real estate and the region in general.

Sincerely,

Don Brown

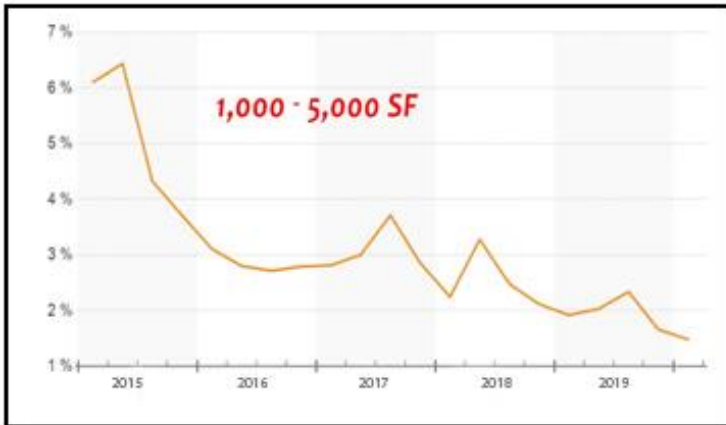


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Industrial Building Vacancy Rate



ECONOMIC INDICATORS, BUSINESS NOTES, AND PREDICTIONS:

- The biggest problem facing the growing economy of San Bernardino is a scarcity of homebuilding in combination with the 100,000 untapped Inland Empire residents who have not entered the job market.
- The first quarter of 2019 has shown a business activity gain of 0.8%, a considerable slower rate of growth than the first estimates of US GDP (3.2%).
- American businesses are scaling back spending as uncertainty mounts about the outcome of the US – China trade war. A 2% rise in capital spending is expected this year before shirking to 1% next year (2020).
- Crude oil is currently trading at around \$55 per barrel, is expected to go up to \$61 per barrel. This is not accounting for the recent events in the Persian Gulf region where Saudi oil fields were attacked. The potential impact and fallout is not yet known.
- Only 60% of Inland Empire households can afford entry-level housing. Such families need to earn at the bare minimum of \$50,260 to comfortably make a \$1,680 a month mortgage. This is slightly higher than last quarter's 59% and below last year's 61%.
- Inland Empire's manufacturing jobs have increased by 18.3%, but has not fully recovered from the recession when it shed 28.6% of its total employment. California as a whole has grown 5.7%.



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Completed Lease Transactions

<u>Tenant</u>	<u>Size</u>	<u>Address</u>	<u>Leasing Rates</u>
Live Well Medical Supplies	5,500 SF	12402 Industrial Blvd. Victorville	\$1.20 NNN
World Gym	2,000 SF	17260 Bear Valley Rd. Victorville	\$1.15 NNN
Victorville Cycles	3,220 SF	12120 Ridgecrest Rd. Victorville	\$0.65 MG
Bear Valley Party Rentals	5,400 SF	12402 Industrial Blvd. Victorville #G1/G5	\$1.25 NNN
Nailissimo	1,484 SF	5037 W Ave N Palmdale	\$3.91 NNN

Featured Properties



Stoddard Wells Rd., Victorville, CA 92395
Agent: Don Brown dbrown@lee-associates.com
760-684-4203



540 West Main Street, Barstow, CA
Agent: Joseph Hisquierdo jhisquierdo@lee-associates.com
760-684-8206



16195 Siskiyou Rd., Apple Valley, CA 92307
Agent: Joseph Hisquierdo jhisquierdo@lee-associates.com
760-684-8206



12180 Ridgecrest Rd., Victorville, CA
Agent: Elizabeth Brown eabrown@lee-associates.com
760-684-4247













41331 12th Street, Suite 103, Palmdale, CA
Agent: Ryan Lee rllee@lee-associates.com
760-684-4541



12402 Industrial Blvd., Victorville, CA
Agent: Elizabeth Brown eabrown@lee-associates.com
760-684-4247

<p>Industrial Building Vacancy Rate High Desert West (Palmdale/Lancaster)</p>	<p>Industrial Building Vacancy Rate High Desert East (Apple Valley, Adelanto, Barstow, Hesperia, Victorville)</p>
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	1,337,003	NET ABSORPTION SF
	1.19%	VACANCY 3,821,828 SF
	\$8.616	AVG. ASKING RATE PSF GROSS
	1,466,887	DELIVERIES 5 Buildings
	11,768,301	UNDER CONSTRUCTION 51 Buildings

	3,972,991	GROSS ABSORPTION SF
	3.73%	VACANCY 8,898,142 SF
	\$8.68	AVG. ASKING RATE PSF GROSS
	2,382,283	DELIVERIES 10 Buildings
	16,732,914	UNDER CONSTRUCTION 63 Buildings

Your Victorville Lee & Associates Team



Don Brown
Principal / President
dbrown@lee-associates.com
760-684-4203



Elizabeth Brown
Principal / Executive Vice President
eabrown@lee-associates.com
760-684-4247



Michele McCormick
Operations Manager
mmccormick@lee-associates.com
760-684-8115



Joseph Hisquierdo
Sales/Leasing Associate
jhisquierdo@lee-associates.com
760-684-8206



Ryan Lee
Sales/Leasing Associate
rlee@lee-associates.com
760-684-4541



Maarten Verwey
Sales/Leasing Associate
mverwey@lee-associates.com
760-684-8597



Austin Farrar
Marketing Associate
afarrar@lee-associates.com
760-684-8306



Michelle Fillingame
Property Manager
mfillingame@lee-associates.com
760-684-4593



Tayler Whittle
Facilities Coordinator / Admin
twhittle@lee-associates.com
760-684-8113



Stacy Stricklin
AP/AR Manager
sstricklin@lee-associates.com
760-684-8675



Karen Morrison
Accounting Manager
kmorrison@lee-associates.com
760-684-8122



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