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Q1 2023 MARKET REPORTS

FEATURED MARKET REPORTS



INDUSTRIAL



OFFICE



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INDUSTRIAL OVERVIEW: SHARP DECLINE HITS FIRST-QUARTER U.S. DEMAND

There was a sharp first-quarter decline in U.S. tenant demand for industrial space as wholesalers and retailers reconsider their inventory levels out of caution over the economic outlook. Net absorption in the first quarter totaled 39.4 million SF, a 57% drop from the record set a year ago. Demand for Canadian industrial space in Q1, however, gained nearly 21% year over year. The overall U.S. vacancy rate settled at 4.4%, an increase of 40 basis points from the close of 2022, comfortably below the 7.3% market average over the last two decades. Vacant space at the end of March totaled 805.6 million SF, up 81.4 million SF from the previous quarter.

While a potential pullback in consumer spending poses downside risks for 2023, onshoring of high-tech manufacturing will likely be a key driver of U.S. absorption from 2024-26. The federal government's 2022 passage of the CHIPS and Science Act, and the Inflation Reduction Act provided more than \$400 billion worth of incentives for growth in U.S.-based high-tech manufacturing. Newly completed space in the first quarter totaled 120.3 million SF compared to 74 million SF delivered in the same period last year. The stock of U.S. industrial property is set to grow nearly 4% in 2023 for the fastest pace of supply growth in more than 30 years. Barring a severe shock to the U.S. economy and industrial leasing, the volume of space set for delivery likely will produce only a moderate increase in vacancy without tipping the market in the tenants' favor. Influencing long-term prospects, increased interest rates of the past two quarters and concern that the increased cost of new construction may exceed replacement cost have caused developers to pull back by up to 40% starting late last year. The recent slowing in net absorption is broad-based across most major markets. Los Angeles and Southern California's Inland Empire - with respective vacancy rates of 3.4% and 3.1%, similar to other coastal markets - notably have posted outsized increases in space availability in recent months. Otherwise, the construction pipeline of projects is barely enough to meaningfully ease the space shortages in majority of coastal markets since the lockdown.

Imports have been declining at the national level since November. The slowing has been most pronounced at the Port of Los Angeles, where inbound cargo has been reduced by the Covid wave in China and risks of a strike by West Coast dockworkers. The potential strike has caused many importers to divert cargoes to major East Coast ports, allowing East and Gulf Coast ports such as Newark, Savannah, Houston, Norfolk and Charleston to lead the U.S. in import growth since the Great Recession.

Lehigh Valley, Richmond, Tampa, Jacksonville, Detroit and Reno have bucked the national trend and record tightening availability since mid-2022, even among properties larger than 100,000 SF. U.S. and Canadian landlords in Q1 are expecting annualized 9.9% and 14.1% rent growth respectively. But those gains appear less likely to materialize as 2023's record levels of deliveries will see 250 million SF added in the second quarter and 650 million SF projected this year.

LOWEST VACANCY RATE		HIGHEST MARKET RENT / SF ANNUAL		HIGHEST MARKET SALE PRICE / SF	
ON, Toronto	1.2%	CA, San Francisco	\$27.12	CA, San Francisco	\$504
BC, Vancouver	1.2%	CA, San Diego	\$21.48	CA, Orange County	\$376
FL, Miami	2.1%	FL, Miami	\$19.20	CA, Los Angeles	\$355
GA, Savannah	2.3%	CA, Orange County	\$18.84	CA, San Diego	\$351
CA, Orange County	2.3%	CA, Los Angeles	\$18.84	BC, Vancouver	\$334 CAD
U.S. Index	4.4%	U.S. Index	\$11.40	U.S. Index	\$162
Canada Index	1.7%	Canada Index	\$11.76 CAD	Canada Index	\$215 CAD
MOST SF UNDER CONSTRUCTION SF		LARGEST INVENTORY BY SF		LOWEST MARKET CAP RATE	
TX, Dallas-Fort Worth	76,691,186	TX, Dallas-Fort Worth	1,091,980,277	CA, Inland Empire	3.7%
AZ, Phoenix	56,293,160	CA, Los Angeles	950,073,302	BC, Vancouver	4.0%
CA, Inland Empire	37,611,626	ON, Toronto	858,933,788	CA, Los Angeles	4.0%
TX, Houston	36,630,838	NY, New York*	854,883,800	ON, Toronto	4.1%
GA, Atlanta	31,804,416	GA, Atlanta	806,519,545	CA, Orange County	4.2%
U.S. Index	640,107,366	U.S. Index	18,239,730,766	U.S. Index	6.0%
Canada Index	61,519,338	Canada Index	1,817,476,514	Canada Index	4.9%

* Please note that the statistics represented in these tables are based on CoStar defined market territories and may not all represent the geographic area the label depicts.

MARKET	VACANCY RATE	MARKET RENT / SF	MARKET SALE PRICE / SF	SF UNDER CONSTRUCTION	INVENTORY SF	MARKET CAP RATE
AB, Calgary **	2.6%	\$0.68	\$126	7,231,614	177,647,196	6.4%
AZ, Phoenix	4.4%	\$1.01	\$186	56,293,160	422,616,483	5.4%
BC, Vancouver **	1.2%	\$1.23	\$334	8,611,489	267,645,255	4.0%
CA, Bakersfield	5.3%	\$0.81	\$121	1,395,932	61,467,772	5.9%
CA, East Bay	4.3%	\$1.43	\$313	5,377,586	272,977,782	4.5%
CA, Fresno	3.1%	\$1.15	\$287	37,611,626	729,320,869	3.7%
CA, Inland Empire	3.4%	\$1.57	\$355	6,696,072	950,073,302	4.0%
CA, Los Angeles	2.3%	\$1.57	\$376	3,061,931	300,685,110	4.2%
CA, Orange County	4.0%	\$1.79	\$351	3,227,888	205,458,990	4.9%
CA, San Diego	7.4%	\$2.26	\$504	5,227,284	97,970,998	4.5%
CA, San Francisco	1.9%	\$1.34	\$219	40,231	9,247,981	5.2%
CA, San Luis Obispo	2.7%	\$1.50	\$254	29,965	17,985,822	5.4%
CA, Santa Barbara	5.3%	\$0.77	\$135	7,699,935	143,955,580	5.1%
CA, Stockton	3.3%	\$1.19	\$219	260,015	74,258,259	5.1%
CA, Ventura	6.5%	\$0.98	\$196	8,914,901	274,244,087	5.8%
CO, Denver	4.1%	\$1.31	\$241	9,933,070	288,242,822	5.8%
DC, Washington	1.0%	\$0.96	\$130	3,727,374	37,373,172	7.0%
FL, Fort Myers	2.1%	\$1.60	\$271	9,180,397	262,957,093	4.9%
FL, Miami	1.1%	\$1.27	\$179	947,936	13,544,056	6.3%
FL, Naples	3.6%	\$1.03	\$153	9,179,067	192,141,307	5.6%
FL, Orlando	2.5%	\$0.70	\$94	670,500	85,975,772	6.2%
GA, Atlanta	4.0%	\$0.71	\$110	31,804,416	806,519,545	5.7%
GA, Savannah	2.3%	\$0.65	\$117	23,369,015	105,559,724	5.9%
ID, Boise	4.2%	\$0.83	\$135	5,414,498	54,465,640	6.2%
IL, Chicago	5.8%	\$0.61	\$77	18,698,962	400,025,100	6.9%

MARKET	VACANCY RATE	MARKET RENT / SF	MARKET SALE PRICE / SF	SF UNDER CONSTRUCTION	INVENTORY SF	MARKET CAP RATE
IL, Chicago	5.8%	\$0.61	\$77	18,698,962	400,025,100	6.9%
IN, Indianapolis	0.6%	\$0.74	\$94	12,960	9,302,773	7.4%
KS, Lawrence	3.4%	\$0.43	\$65	72,000	20,913,103	7.8%
KS, Topeka	3.3%	\$0.76	\$75	2,272,114	39,311,397	8.1%
LA, Baton Rouge	4.9%	\$1.22	\$192	8,175,036	357,031,631	5.9%
MA, Boston	6.2%	\$0.84	\$136	2,720,450	260,454,767	6.4%
MD, Baltimore	6.2%	\$0.84	\$136	2,720,450	260,454,767	6.4%
United States Index	4.4%	\$0.95	\$162	640,107,366	18,239,730,766	6.0%
Canada Index	1.7%	\$0.98**	\$215**	61,519,338	1,817,476,514	4.9%
MI, Detroit	4.0%	\$0.68	\$75	8,226,357	616,976,002	8.6%
MN, Minneapolis	2.9%	\$0.66	\$94	6,899,188	413,163,722	7.4%
MO, Kansas City *	3.8%	\$0.54	\$68	10,571,869	350,371,164	7.5%
MO, Saint Louis	4.6%	\$0.57	\$73	2,832,492	334,266,869	6.8%
NC, Durham	4.3%	\$0.91	\$140	4,307,034	47,618,841	6.0%
NC, Raleigh	4.4%	\$0.93	\$138	5,153,584	99,198,681	6.3%
NE, Lincoln	5.2%	\$0.53	\$84	646,426	35,868,602	6.6%
NE, Omaha	2.6%	\$0.62	\$86	908,601	105,336,062	7.2%
NJ, Atlantic City	4.3%	\$0.82	\$87	0	9,395,819	6.9%
NJ, Northern New Jersey *	2.8%	\$1.25	\$207	4,846,190	250,388,078	5.4%
NJ, Trenton	5.3%	\$0.81	\$170	1,406,226	43,508,607	5.6%
NJ, Vineland	7.8%	\$0.59	\$69	0	18,313,109	6.5%
NV, Reno	2.8%	\$0.75	\$134	4,434,334	111,403,127	5.2%
NY, Long Island	4.1%	\$1.47	\$210	1,897,120	182,756,461	6.8%
NY, New York *	4.4%	\$1.53	\$286	20,882,623	854,883,800	4.9%
OH, Cincinnati	3.2%	\$0.57	\$70	9,975,567	341,885,841	7.2%
OH, Cleveland	4.0%	\$0.52	\$52	6,859,404	354,833,142	8.5%

Q1 2023

INDUSTRIAL OVERVIEW

MARKET	VACANCY RATE	MARKET RENT / SF	MARKET SALE PRICE / SF	SF UNDER CONSTRUCTION	INVENTORY SF	MARKET CAP RATE
OH, Columbus	5.1%	\$0.64	\$86	15,683,410	349,222,386	6.1%
ON, Toronto **	1.2%	\$1.10	\$249	30,573,344	858,933,788	4.1%
PA, Harrisburg	2.5%	\$0.63	\$97	2,614,025	109,964,436	5.9%
PA, Lehigh Valley *	4.2%	\$0.67	\$123	5,129,538	161,841,787	5.7%
PA, Philadelphia *	4.8%	\$0.88	\$123	26,636,212	597,282,825	6.1%
SC, Charleston	3.4%	\$0.80	\$104	11,913,024	100,149,125	6.5%
SC, Greenville	4.7%	\$0.53	\$63	4,866,215	139,971,464	7.5%
SC, Spartanburg	8.0%	\$0.50	\$67	13,831,050	108,458,874	7.3%
TN, Nashville	2.3%	\$0.65	\$121	11,771,365	254,961,264	5.2%
TX, Dallas-Fort Worth	6.1%	\$0.75	\$118	76,691,186	1,091,980,277	5.5%
TX, Houston	5.6%	\$0.71	\$106	36,630,838	772,198,821	6.3%
WA, Seattle	5.0%	\$1.18	\$260	9,234,465	349,079,215	4.6%
WI, Madison	2.6%	\$0.61	\$77	818,348	73,860,084	7.2%
United States Index	4.4%	\$0.95	\$162	640,107,366	18,239,730,766	6.0%
Canada Index	1.7%	\$0.98**	\$215**	61,519,338	1,817,476,514	4.9%

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** Numbers shown are in Canadian dollars (CAD)



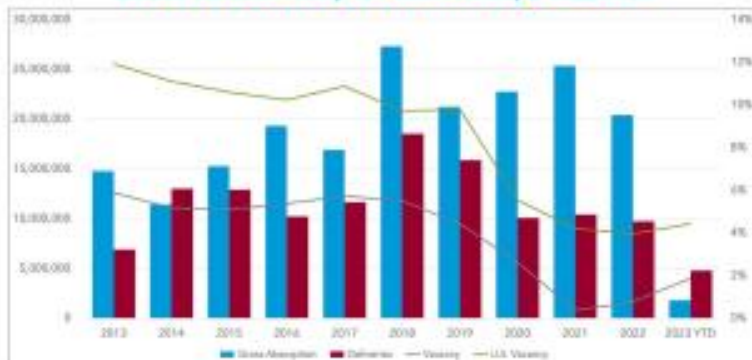
INDUSTRIAL MARKET OVERVIEW

CAROLINE PAYAN, *Director of Marketing & Research*

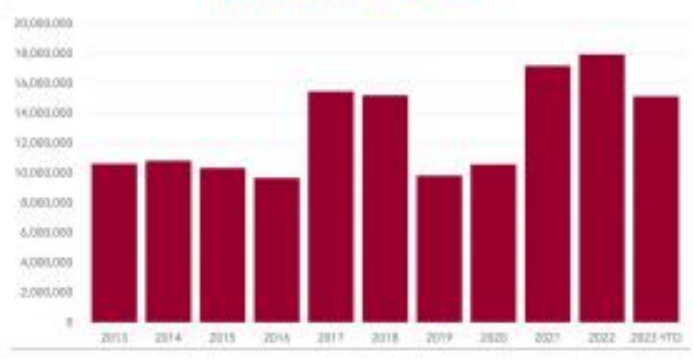
The Inland Empire East Valley industrial sector slowed during the first quarter of 2023. With many varying-sized industrial developments delivering at the end of 2022 and early 2023, vacancy and availability rates continued to climb in most submarkets. Although vacancy rates remain below long-term market averages, availability rates which will directly impact vacancy in the coming quarters, is up sharply. Although the market is slowing, lease rates remain at or near all-time highs. Sale prices have begun to decline, and cap rates have begun to increase. Institutional and developer activity on new transactions has slowed as money waits to see how market adjustments may impact values and returns.

MARKET INDICATORS	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
▼ Gross Absorption SF	1,792,311	3,459,099	8,194,939	3,975,366	4,765,076
▲ Vacancy Rate	1.86%	0.77%	0.79%	0.41%	0.56%
▼ Avg GRS Asking Rate PSF	\$15.37	\$15.66	\$15.44	\$15.05	\$14.47
▼ SF Under Construction	15,136,063	17,944,921	19,712,800	22,365,124	17,179,286
▲ Inventory SF	279,326,974	277,669,509	275,895,042	275,150,149	269,073,857

GROSS ABSORPTION, NET DELIVERIES, & VACANCY



UNDER CONSTRUCTION



TOP SALE TRANSACTIONS BY SF	SIZE	SALE PRICE	BUYER / SELLER	BUILDING CLASS
36312 & 36324 Cherry Valley Blvd. Cherry Valley, CA	1,832,667 SF	\$329,000,500 \$179.52 PSF	Brookfield Asset Mgmt The Shopoff Group	Class A
6075 Lance Drive Riverside, CA	361,346 SF	\$120,000,000 \$332.09 PSF	Altus Group Loctek Ergonomic	Class A
24773 Nandina Avenue Moreno Valley, CA	95,922 SF	\$27,241,848 \$284.00 PSF	Dalfen Industrial Molto Capital	Class A

TOP LEASE TRANSACTIONS BY SF	SIZE	LANDLORD	TENANT	TENANT INDUSTRY
657 W. Nance Street (Renewal) Perris, CA	864,000 SF	IPT Perris DC, LLC	NFI Industries, Inc.	3PL
17335 Glen Helen Parkway (Renewal) San Bernardino, CA	604,029 SF	Alere Property Group	Hautelook, Inc. (Nordstrom)	Retail
23450 Brodiaea Avenue (Renewal) Moreno Valley, CA	601,810 SF	Prologis Trust	Harbor Freight Tools	Retail



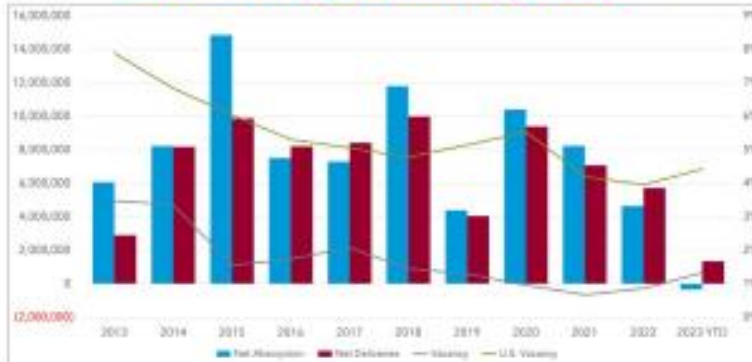
INDUSTRIAL MARKET OVERVIEW

KARLY KAZANJIAN, *Director of Operations*

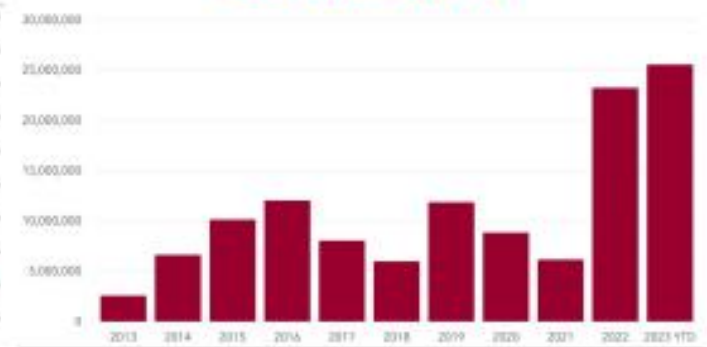
The Inland Empire West submarket remains one of the top industrial markets in the nation, despite its healthy course of correction. A lack of positive net absorption, in conjunction with the many completed constructions last quarter, caused a bump in vacant space. This increase, however, is relative as the vacancy rate is still under 1.5%. Any market fundamental shifts happening in the IEW has not disrupted institutional or credit tenant interest. This past quarter, the top three leases were over 1M square feet, and the top three sales were all nine-figure transactions. Despite the development pipeline being fuller than ever, lease rates remain competitive and historically strong.

MARKET INDICATORS	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
▲ 12 Mo. Net Absorption SF	(341,964)	(781,096)	1,319,814	1,367,935	2,738,816
▲ Vacancy Rate	1.33%	0.86%	0.48%	0.33%	0.25%
▼ Avg NNN Asking Rate PSF	\$20.47	\$20.77	\$20.28	\$15.66	\$14.28
▲ SF Under Construction	25,562,676	23,259,548	20,254,257	18,663,661	12,490,629
▲ Inventory SF	359,568,117	356,133,149	352,235,614	350,261,015	342,836,362

NET ABSORPTION, NET DELIVERIES, & VACANCY



UNDER CONSTRUCTION



TOP SALE TRANSACTIONS BY SF	SIZE	SALE PRICE	BUYER / SELLER	BUILDING CLASS
10545 Production Avenue Fontana, CA	1,101,840 SF	\$365,000,000 \$331.26 PSF	Rexford Industrial Realty Tireco, Inc.	Class A
1800 S. Wineville Avenue Ontario, CA	446,624 SF	\$125,000,000 \$279.88 PSF	Link Logistics JP Morgan	Class B
13204-13250 Philadelphia Street Fontana, CA	380,650 SF	\$127,000,000 \$333.64 PSF	BentalGreenOak MetLife	Class A

TOP LEASE TRANSACTIONS BY SF	SIZE	LANDLORD	TENANT	TENANT INDUSTRY
3413 Manitou Court Jurupa Valley, CA	1,379,287 SF	Link Logistics	Crown & Court / Consteallation Brands, Inc.	Beverage Company
4705 Grove Avenue Ontario, CA	1,186,414 SF	Prologis	Home Depot	Retailer
4801 Grove Avenue Ontario, CA	1,055,100 SF	Prologis	Home Depot	Retailer

Featured Properties

JUST LISTED ±2,500 SF Industrial Space



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17359 Darwin Ave. Unit E&F Hesperia, CA
Elizabeth Brown | eabrown@lee-associates.com | 760.684.4247

lee-associates.com

Industrial Warehouse
17359 Darwin Ave. E&F
Hesperia, CA
Agent:
Elizabeth Brown
760-684-4247
eabrown@lee-associates.com

JUST LISTED FOR SALE AND GROUND LEASE



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COMMERCIAL REAL ESTATE SERVICES

15321 VILLAGE DR. | VICTORVILLE, CA
Paul A. Casilla | PCasilla@Lee-Associates.com
Elizabeth Brown | eabrown@lee-associates.com

lee-associates.com

Land Investment
15321 Village Dr.
Victorville, CA
Agent:
Elizabeth Brown
760-684-4247
Paul A. Casilla
760-684-4541

JUST LISTED ±864 SF Multi-tenant Medical/Office Building



LEE & ASSOCIATES
COMMERCIAL REAL ESTATE SERVICES

18145 Outer US HWY 18 Suite F Apple Valley, CA
Paul A. Casilla | PCasilla@Lee-Associates.com | 760.684.4541

lee-associates.com

Medical/Office
18145 Outer HWY 18
Apple Valley, CA
Agent:
Paul A. Casilla
760-684-4541
PCasilla@lee-associates.com

FOR LEASE




LEE & ASSOCIATES
COMMERCIAL REAL ESTATE SERVICES

15056 7th St. #A Victorville, CA
Elizabeth Brown | eabrown@lee-associates.com
Donald P. Brown | dbrown@lee-associates.com
Joseph Hisquierdo | jhisquierdo@lee-associates.com

lee-associates.com

Office Space
15056 7th St. #A
Victorville, CA 92392
Agent:
Elizabeth Brown
760-684-4247
Joseph Hisquierdo
760-684-8206
Donald P. Brown
760-241-5211

FOR SALE



LEE & ASSOCIATES
COMMERCIAL REAL ESTATE SERVICES

5.85 Acres Dante St. | Victorville, CA
Joseph Hisquierdo | jhisquierdo@lee-associates.com | 760.684.8206
Donald P. Brown | dbrown@lee-associates.com | 760.241.5211

lee-associates.com

Land Investment
5.85 Acres Dante St.
Victorville, CA
Agent:
Joseph Hisquierdo
jhisquierdo@lee-associates.com
Donald P. Brown
dbrown@lee-associates.com
760-241-5211

FOR SALE



LEE & ASSOCIATES
COMMERCIAL REAL ESTATE SERVICES

Stoddard Wells Industrial Park, Victorville, CA
Donald P. Brown | dbrown@lee-associates.com
Jim deRegt | jderegt@lee-associates.com

lee-associates.com

Proposed Warehouse
Stoddard Wells Industrial
Park Stoddard Wells Rd.
Victorville, CA
Agents:
Donald P. Brown
dbrown@lee-associates.com
760-241-5211
Jim deRegt
jderegt@lee-associates.com



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



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



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



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



Tanya Villanueva
Marketing/Transaction Assistant
tvillanueva@lee-associates.com
760-684-8224



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



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



Paul A. Casilla
Broker Associate
pcasilla@lee-associates.com
760-684-4145



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