

NORTHERN SAN BERNARDINO COUNTY'S INDUSTRIAL MARKET CONTINUES TO THRIVE



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The Northern portion of San Bernardino County and its industrial market is composed of Adelanto, Barstow, Hesperia, Apple Valley and Victorville. The entire area contains about 18.8 million square feet of existing inventory and 1.5 million square feet of vacant space, for a vacancy factor of 8.1 percent. This 8.1 percent vacancy factor is somewhat misleading in that it includes two large, special-purpose buildings that, from a practical standpoint, overstate the vacancy rate. Excluding those two buildings, the true vacancy factor of the industrial market in the High Desert region would be closer to 2.5 percent or 3 percent.

The Stirling Development, the master developer of Southern California Logistics Airport (SCLA) and the former George Air Force Base, continues

to lead the High Desert in developing quality, LEED-certified, Class A industrial buildings. Stirling has facilitated the expansion of Plastipak Packaging, Newell Brands and others over the past year, expanding the project square footage to nearly 4.2 million square feet that has been completed since the firm entered this venture.

Stirling has recently begun marketing a small industrial development lot that totals 28 acres, which is divisible for sites ranging from 2.8 acres to five acres. These land parcels will provide High Desert industrial users with the ability to develop quality industrial space in a central location at the Southern California Logistics Airport. The parcels are complemented by the close proximity to Interstate 15 and Air Expressway, the future E 220 crosstown freeway that will link the Victor Valley to the Antelope Valley and to Highway 395.

The leading market at the end of the third quarter of 2017 is the City of Adelanto with 142 existing buildings encompassing nearly 2 million square feet of space. The city has a very low vacancy factor due to its inclusion of medical cannabis cultivation, which was approved in Adelanto in November 2015.

The city has approved around six Conditional Use Permits (CUP) for medical marijuana cultivation in the past year and a half, forcing many tenants to move to other portions of the High Desert in an already tight market. Since that time, properties situated within the cultivation zone have increased nearly nine times over their base rate. For example, a 15,000-square-foot industrial building would run between \$0.30 per square foot to \$0.35 per square foot in October 2015. We are now seeing transactions recorded as high as \$3.25 per square foot, triple-net, since that time.

We have seen industrial buildings rise from values of \$45 to \$60 to more than \$300 per square foot during that same time, depending upon size, location, age and interior improvements (instillation, clear height, sprinklers, etc.)

In nearby Apple Valley, a new Big Lots and its respective 1.3-million-square-foot facility will soon be built on 106 acres. The company expects to break ground in the first quarter of 2018. Apple Valley enjoys a very tight industrial market with 12 existing industrial buildings totaling nearly 2.6

million square feet and 46,567 square feet of vacant space for a 1.79 percent vacancy factor.

Frank Tanner, trustee of the Tanner Family Trust is repositioning a 40-acre parcel adjacent to Apple Valley Airport with fully improved streets, gutters and utilities to allow for speculative industrial development starting in the first quarter of 2018. Tanner has recently engaged the services of RGA Industrial Architecture to look at the development of buildings as small as 30,000 square feet and as large as 120,000 square feet for this site.

While Stirling Development looks at developing its 28± acre industrial parcel for smaller incubator type users and Tanner and his family look to develop their project in Apple Valley, elsewhere on the High Desert there is an extremely tight market that has impacted the local commercial and industrial brokers with a lack of quality inventory.

I believe that if Congress can pass a tax bill by year end, additional capital will flow into the High Desert region to start developing speculative industrial buildings and help complement an extremely tight real estate market.

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