



## **Industrial Real Estate Overview**

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As many of you reading this are likely aware; way back in December of 2015, the small desert city of Adelanto stepped into history as “one of the few cities in the State of California that would allow medical marijuana growing on an industrial scale” (Halperin, 2017). In the City of Adelanto, the initial ordinances adopted at the end of 2015 specified that medical marijuana cultivation and limited manufacturing would be allowed in the city and were specifically limited to properties within the City’s Industrial Parks 2, 3 and 4.

However, over the years Adelanto’s commercial cannabis regulations have continued to evolve; adopting ordinances that have significantly expanded the opportunity to operate cannabis related businesses by allowing for marijuana permits in Cultivation, Manufacturing, Transportation, Distribution, Delivery Service and a very limited number of Retail Store Fronts. The full range of permits available combined with a reasonable level of taxation and simply having expanded the designated areas with changes to the zoning types that allow and support commercial cannabis businesses has managed to make Adelanto a compelling place to call home for optimistic commercial cannabis entrepreneurs and their businesses.

Commercial cannabis businesses are currently permitted to be operated on all Manufacturing/Industrial (MI), Light Manufacturing (LM), and Airport Development District (ADD), zoned properties. The various permit types predominately remain un-capped; with the only real limitation being on Retail Sales permits which has been limited to areas specifically designated as Dispensary Zones and with a limited total number of permits available, (2 of 4 dispensary permits are currently active and in operation per the date of this document).

In recently updated data provided by the City of Adelanto there are currently 85 commercial cannabis businesses actively paying Excise Taxes and there are ±108 active cannabis business licenses. Cannabis Tax Revenues are collected a Quarterly basis and the City has provided the following figures:

<b>Fiscal Year 2019</b>	Q1 \$224,658.00	Q2 \$264,487.00	
	Q3 \$392,426.00	Q4 \$754,947.00	
<b>FY 2019 - TOTAL CANNABIS TAX REVENUES:</b>			<b>\$1,636,518.00</b>
<b>Fiscal Year 2020</b>	Q1 \$345,215.00	Q2 \$252,221.00	
	Q3 \$728,719.00	Q4 \$598,631.00	
<b>FY 2020 - TOTAL CANNABIS TAX REVENUES:</b>			<b>\$1,924,786.00</b>
<b>Fiscal Year 2021</b>	Q1 \$937,401.00	Q2 \$457,261.00	
	Q3 \$1,058,341.00	Q4 \$1,219,926.00	
<b>FY 2021 - TOTAL CANNABIS TAX REVENUES:</b>			<b>\$3,672,929.00</b>
<b>Fiscal Year 2022</b>	Q1 \$790,759.00	Q2 \$977,796.00	
	Q3 \$ 997,236.00	Q4 Payment Due July 31, 2022	
<b>FY 2022 - TOTAL CANNABIS TAX REVENUES YTD:</b>			<b>\$2,765,791.00</b>

In reviewing the comparable industrial sales data for the City of Adelanto, utilizing; CoStar, the High Desert Association of Realtors’ Multiple-Listing-Service and a title company and using search criteria focused on industrial building and vacant land sales in the City of Adelanto, both before and after the

adoption of commercial cannabis related ordinances and having detailed local market knowledge we have compiled the following comparative sales information:

### **2014 Industrial Property Sales**

In the City of Adelanto during the 2014 calendar year, we observed (6) six industrial building sales ranging from a low of \$19.13 PSF, for a ±34,500 SF building on Rancho Road, to a high of \$53.33 PSF for a ±3,000 SF building on Cassia Road. **AVG PPSF \$35.76**

### **2015 Industrial Property Sales**

In the City of Adelanto during the 2015 calendar year, we observed (5) five industrial building sales ranging from a low of \$40.32 PSF, for a ±12,400 SF building on Koala Road, to a high of \$141.66 PSF for a ±6,000 SF building on Yucca Road. **AVG PPSF \$66.21**

### **2016 Industrial Property Sales**

In the City of Adelanto during the 2016 calendar year, we observed (21) twenty-one industrial building sales ranging from a low of \$36.93 PSF, for a ±17,600 SF building on Koala Road, to a high of \$474.03 PSF for a ±3,850 SF building on Beaver Road. **AVG PPSF \$152.01**

### **2017 Industrial Property Sales**

In the City of Adelanto during the 2017 calendar year, we observed (10) ten industrial building sales ranging from a low of \$96.52 PSF, for a ±6,061 SF building on Cassia Road, to a high of \$280.42 PSF for a ±9,450 SF building on Koala Road. **AVG PPSF \$165.83**

### **2018 Industrial Property Sales**

In the City of Adelanto during the 2018 calendar year, we observed (4) four industrial building sales ranging from a low of \$142.02 PSF, for a ±29,925 SF building on Muskrat Ave, to a high of \$163.25 PSF for a ±40,000 SF building on Commerce Way. **AVG PPSF \$149.62**

### **2019 Industrial Property Sales**

In the City of Adelanto during the 2019 calendar year, we observed (4) four industrial building sales ranging from a low of \$167.08 PSF, for a ±30,000 SF for a newly constructed industrial condo unit on Muskrat Ave, to a high of \$254.36 PSF for a ±27,250 SF building on Rancho Road. **AVG PPSF \$193.58**

### **2020 Industrial Property Sales**

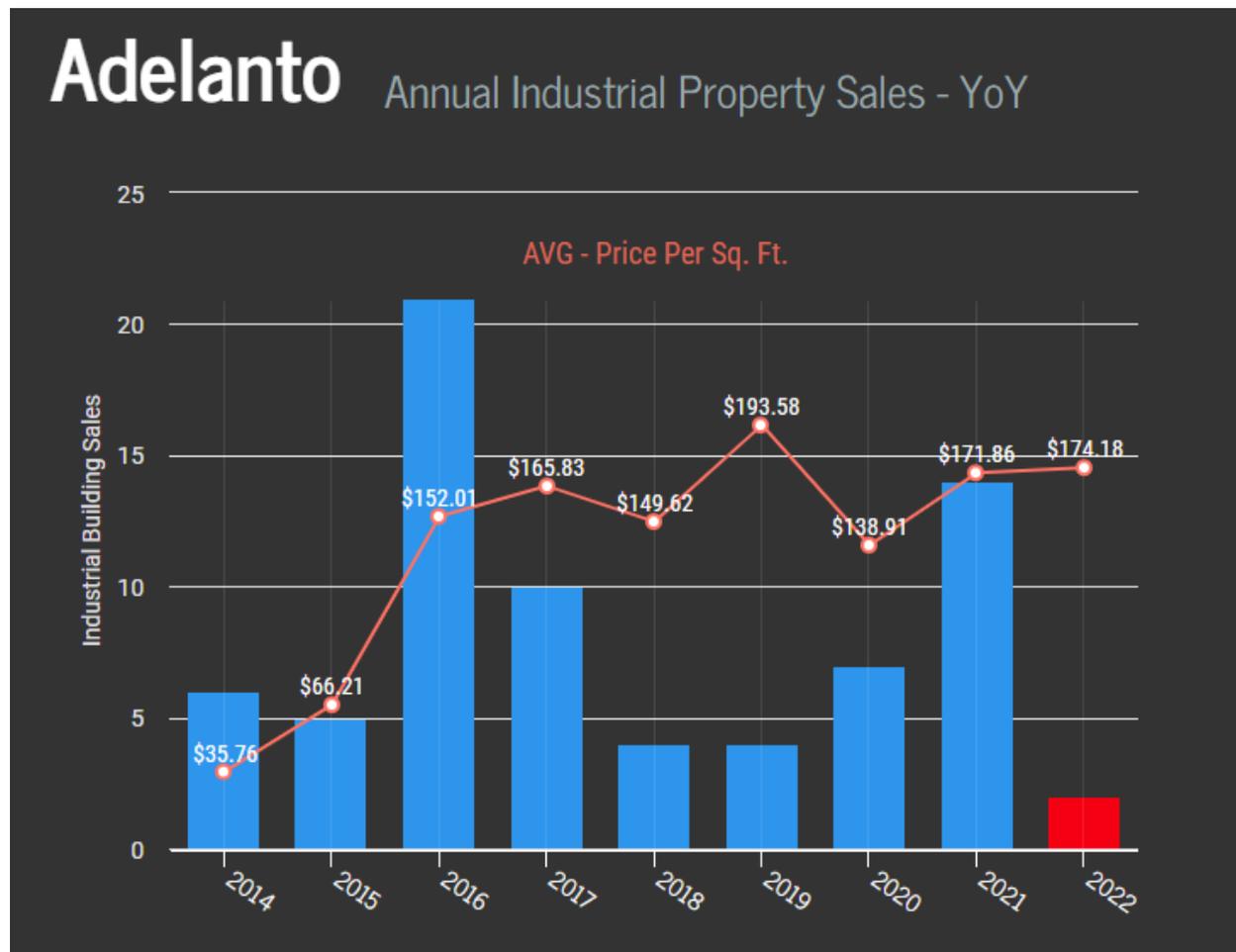
In the City of Adelanto during the 2020 calendar year, we observed (7) seven industrial building sales ranging from \$36.15 PSF for a ±45,000 SF building on Primrose Road to a high of \$550.00 PSF for a ±6,000 SF building on Muskrat Ave.; this comp is an anomaly. **The Adjusted AVG PPSF \$138.91** (\$217.48 if it included the highest comp).

### **2021 Industrial Property Sales**

In the City of Adelanto during the 2021 calendar year, we observed (14) fourteen industrial building sales ranging from \$79.21 PSF for a ±50,500 SF building on Columbus Street, to a high of \$321.43 PSF for a ±5,600 SF building on Yucca Road. Among the sales are (5) five ±29,925 SF concrete tilt, industrial condo units built specifically for commercial cannabis users. **The AVG PPSF \$167.97.**

### **2022 Industrial Property Sales**

Thus far, in the City of Adelanto during the 2022 calendar year, we have observed (2) two industrial building sales in the amount of \$198.36 PSF for a ±35,900 SF building on Holly Road and \$150.00 PSF for a ±12,000 SF building on Muskrat Avenue. **The AVG PPSF \$174.18.**



As you can see in the chart above, the highest volumes of property turn-overs occurred during 2016 with twenty-one sales that year, and then again in 2021 with fourteen sales that year. The average price per square foot first peaked in 2017 at \$165.83 PSF, before dropping in 2018 and then rebounding back up to an all-time high in 2019 at \$193.58 PSF. However, it is important to realize that there were significantly less sales in 2018 and 2019 at only four per year and of the four sales in 2019 two were of newly constructed industrial condo units. As scarcity of viable industrial space continued to set in, price per square foot rose in 2019 indicating a healthy ongoing demand in the market at that time.

During the 2020 Calendar Year, there appears to have been a significant slow down in property turnovers with only one sale during the first six-months. This initial slow-down was likely attributable to the effect of the Covid-19 pandemic on the economy as many business owners and investors adopted a wait and see attitude; surprisingly, the second half of 2020 rebounded with a total of six sales, including two new construction industrial condo units. 2021 sales reflected a hot market during the first three quarters, with sales halting in the fourth quarter. However, 2021 enjoyed the second highest turnover rate since 2016.

We are now finishing the second quarter of the 2022 Calendar Year, with what appears to be another slowdown in interest with just two sales completed thus far this year; bringing the average price per square foot nearly in line with the prior year. I am observing a healthy interest for large industrial space with strong consideration coming for the first time from non-commercial cannabis businesses. We will have to wait and see how the price per square foot fairs, as additional sales are recorded throughout the year.

### **2014 Vacant Land Sales (Zoned MI, LM or ADD)**

In the City of Adelanto during the 2014 calendar year, we observed (15) fifteen vacant land sales ranging from a low of \$0.07 PSF, for a  $\pm 5.00$  Acre Lot on Cactus Road, to a high of \$1.33 PSF for a  $\pm 1.73$  Acre Lot on Adelanto Road. **AVG PPSF \$0.36**

### **2015 Vacant Land Sales (Zoned MI, LM or ADD)**

In the City of Adelanto during the 2015 calendar year, we observed (16) sixteen vacant land sales ranging from a low of \$0.06 PSF, for a  $\pm 4.11$  Acres on Holly Road, to a high of \$14.01 PSF for a  $\pm 0.43$  Acres on Raccoon Avenue. **AVG PPSF \$4.82** Note: Of the (16) sixteen sales there were only (6) six vacant land sales in zoning related to commercial cannabis uses, they ranged from a low of \$10.30 PSF for  $\pm 0.78$  Acres on Raccoon to \$14.01 PSF for  $\pm 0.43$  Acres on Raccoon. **The AVG PPSF for these (6) six sales was \$12.32.**

### **2016 Vacant Land Sales (Zoned MI, LM or ADD)**

In the City of Adelanto during the 2016 calendar year, we observed (21) twenty-one vacant land sales ranging from a low of \$0.26 PSF, for a  $\pm 2.42$  Acres on Aster Road, to a high of \$12.94 PSF for a  $\pm 0.78$  Acres on Yucca Road. **AVG PPSF \$2.05**

### **2017 Vacant Land Sales (Zoned MI, LM or ADD)**

In the City of Adelanto during the 2017 calendar year, we observed (42) forty-two vacant land sales ranging from a low of \$0.02 PSF, for a  $\pm 49.62$  Acres on Vinton Road, to a high of \$29.15 PSF for  $\pm 2.49$  Acres on Beaver Road. **AVG PPSF \$2.73**

### **2018 Vacant Land Sales (Zoned MI, LM or ADD)**

In the City of Adelanto during the 2018 calendar year, we observed (23) twenty-three vacant land sales ranging from a low of \$0.26 PSF, for  $\pm 17.83$  Acres on Caughlin Road, to a high of \$13.20 PSF for  $\pm 0.72$  Acres on Raccoon Avenue. **AVG PPSF \$1.33**

### **2019 Vacant Land Sales (Zoned MI, LM or ADD)**

In the City of Adelanto during the 2019 calendar year, we observed (22) twenty-two vacant land sales ranging from a low of \$0.13 PSF, for  $\pm 9.14$  Acres on Calleja Road, to a high of \$3.44 PSF for  $\pm 40.00$  Acres on Aster Road. **AVG PPSF \$0.84**

### **2020 Vacant Land Sales (Zoned MI, LM, ADD)**

In the City of Adelanto during the 2020 calendar year, we observed (16) sixteen vacant land sales ranging from a low of \$0.13 PSF, for  $\pm 14.74$  Acres on Powerline Rd., to a high of \$32.31 PSF for  $\pm 1.19$  Acres on Beaver Road; *this comp is an anomaly and not indicative of the typical vacant land sales transaction as it included a ready to build parcel with entitlements and underground improvements.* **The Adjusted AVG PPSF \$1.62 (\$3.64 Avg. PPSF if it included the highest comp).**

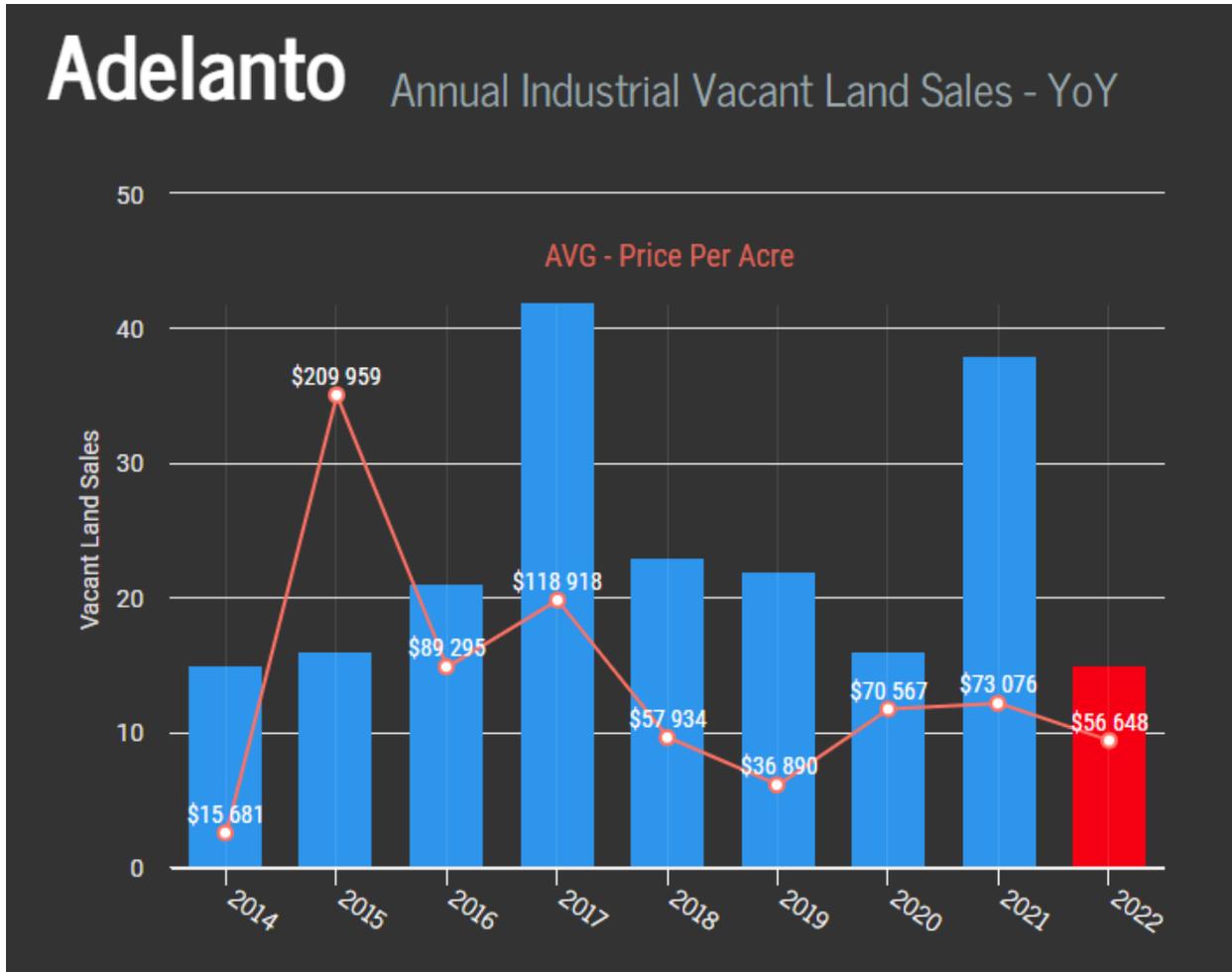
### **2021 Vacant Land Sales (Zoned MI, LM)**

In the City of Adelanto during the 2021 calendar year, we observed (38) thirty-eight vacant land sales, ranging from a low of \$0.11 PSF, for  $\pm 10.00$  Acres on Cactus Road, to a high of \$17.10 PSF for  $\pm 0.47$  Acres on A Street; *the high comparables are somewhat of an anomaly and not indicative of the typical vacant land sales transactions being that they are very small parcels, and inside one of the industrial parks adjacent to developed property.*

**The AVG PPSF \$1.68 (\$2.45 Avg. PPSF if it included the highest 2 comps).**

### 2022 Vacant Land Sales (Zoned MI, LM)

Thus far, in the City of Adelanto during the 2022 calendar year, we have observed (15) fifteen industrial manufacturing and light manufacturing zoned vacant land sales, ranging from a low of \$0.21 PSF, for ±34.52 Acres on Rancho Road, to a high of \$2.62 PSF for ±35.01 Acres on Rancho Road. **The AVG PPSF \$1.30**



In review of the chart above, the highest volume of vacant land turn-overs occurred in 2017 with forty-two vacant land properties sold during that year. The second highest sales activity we witnessed occurred in 2021, which included 38 vacant land sales. The average price per acre peaked in 2015 when several cannabis zoned properties were sold located off of Raccoon Avenue, (Note: each was smaller than an acre and these were the highest land sales recorded in the industrial parks at that time). As you can see, there were significantly less land sales in 2018 and 2019 in comparison to 2017, but still a substantial amount of industrial land was trading hands when compared to pre-cannabis years. The average price per acre nearly doubled after bottoming out in 2019 at \$36,590.00/aces and has slowly been on the rise between 2020 and 2021 appreciating nearly 23%. The heavy dip in the average price per acre in 2019 was likely linked to the City's move to substantially expand the available land zoned for commercial cannabis use.

As of June 8, 2022, and according to data pulled from CoStar; there were six (6) industrial building listings in the City of Adelanto, zoned for commercial cannabis business uses, and listed for sale; of which, (2) two out of the (6) are industrial condo units, Five (5) show active statuses and one (1) is currently showing in escrow. The listing prices ranged from a low of \$116.67 PSF for a ±58,925 Sq. Ft. as two combined industrial condos with ±2,500 Amps of 3P power to a high of \$450.00 PSF for a licensed ±6,000 Sq. Ft. building with ±2,000 Amps of 3P power situated on ±1.07 acres. Note: Two (2) listings did not show an asking price.

As of June 8, 2022, and according to data pulled from CoStar there are currently (28) twenty-eight active vacant land listings available for sale in the City of Adelanto that are zoned to allow for some form of commercial cannabis related business uses and range in asking price from a low of ±\$70,000.00 for a ±2.49 Acre parcel located on Cassia Road to a high of \$3,312,500.00 for ±66.12 Acres located Raccoon Ave. Adelanto.

The greatest demand for commercial cannabis properties initially occurred early-on during 2016 and 2017 which kicked-off the Adelanto Industrial Real Estate Market boom. In review of the current and past market data, it appears developers have been working to create more viable commercial cannabis properties, demand at this time seems to be cooling off as we see less volume of property turn-overs and generally properties sitting more days on market. Recent sales figures and turn-over in 2022 indicates a much slower market that may be starting to see the impact of economic inflation.

There continues to be an inadequate supply of “well positioned”, cannabis-zoned vacant land properties on the market in the City of Adelanto, with some of the higher value properties being those that are within close proximity to utilities, roads and infrastructure. A smaller volume of decent land parcels on the market, combined with a lack of access to utilities, and city infrastructure continues to be a downward force on the majority of vacant industrial land prices.

The Adelanto Industrial Vacant Land and Building Market began its first cycle of correction in late Q3 of 2017. As of Q3 2021, the Adelanto industrial real estate market appears to have reached a new point of correction regarding cannabis zoned land, and buildings. We have seen sales and leasing prices somewhat normalize to levels that are higher than pre-cannabis market levels but are not near the levels seen at the first peak of the market. As Adelanto continues to see growth and development across the industrial parks, I anticipate seeing continued absorption of vacant land and more logistically complex and expensive industrial property sales that will include properties that have been historically difficult to acquire due to the difficulties in relocating existing largescale businesses and a lack of available space in regionally. We may not see these types of sales accomplished anytime soon as well-capitalized institutional investors and the more experienced commercial cannabis operators have many competing areas and states to consider.

In 2022 we are now seeing a more substantial increased demand and consideration from non-cannabis industrial operators seeking to relocate from the heavily saturated and regulated Los Angeles and southern portions of the Inland Empire. This is creating substantial upward pressure on existing developed industrial space, and appears to have spurred an increase in vacant industrial land values and some industrial spec-building regionally. I would expect to see continued growth and interest in industrial properties on-going even though we are starting to see the economy dipping toward a recession.

Taking in a broader perspective beyond the City of Adelanto where is the cannabis industry going? Presently, marijuana remains Federally illegal however, it isn't that hard to see that the support for national legalization continues to grow. “To date, 38 states have legalized medical use, 19 now permit adult recreational use, and some 70% of Americans now believe cannabis should be fully legal”

(Yakowicz, 2021). Cannabis is going to be massive with already “more than \$17.5 billion in legal sales last year” (Yakowicz, 2021) and expectations that it will hit \$100 billion in legal sales in just 8 short years from now.

“In California, the market is already proving to be tremendously popular, racking up \$2 billion in total tax revenue and \$4.4 billion in sales alone in 2020” (Boreland 2021). Cannabis is quickly becoming the highest and best use in all real estate markets where it has been legalized commanding premium rental rates and top dollar price tags on retail and industrial space, the pressure cannabis is placing on property values is creating an unintentional barrier to regular business uses competing for the same properties. “The real estate uses are even more expansive than the current retail and industrial opportunities. Well-known chains like Burger King are looking at becoming dispensaries, just one example of how cannabis will be used by existing brands to drive revenue in struggling properties, particularly after the pandemic” (Boreland 2021).

Joseph W. Brady, Inc. dba The Bradco Companies is the longest standing, full-service commercial, industrial, office, retail, multi-family and vacant land brokerage firm in the High Desert region. We also publish the Bradco High Desert Report; the most comprehensive economic overview of the High Desert region. If you wish to receive this report, please go to our website [www.TheBradcoCompanies.com/register](http://www.TheBradcoCompanies.com/register) and register. You will receive this and other communications relative to our local economy or issues that we are involved in free of charge.

Should you have an interest in investing in our local commercial real estate markets of; Adelanto, Apple Valley, Hesperia, Victorville and Barstow, or if your business has a need to lease commercial space and you would like assistance, please don't hesitate to contact:

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