4Q23

St. Louis Industrial Market Overview

NEWMARK ZIMMER

Market Observations

Economy

- The region's labor market remained historically strong amid shifting macroeconomic conditions. November's 3.4% unemployment rate was significantly lower than the 4.4% 10-year historical average.
- Year-over-year, job gains have been most pronounced in the services industry, which is still making up for lost ground during the pandemic. Leisure/hospitality led all sectors in job gains during the past 12 months.
- Industrial firms are continuing to adjust labor needs. Locally, two out of the three industrial sectors experienced growth during the past year: manufacturing, by 2.7% and trade/transportation/utilities, by 1.0%.

Leasing Market Fundamentals

- Absorption in the fourth quarter of 2023 totaled negative 32,702 SF. Total net absorption during the past four quarters totaled 1.4 million SF, equating to a decrease of 75.7% compared with the average annual absorption during the pandemic period. The market is recalibrating, as the economy slows and construction deliveries outpace net absorption, reversing the trend of the last two years.
- The 2.8-million-SF construction pipeline has trended upward over the past two quarters and is expected to accelerate towards 3.4 million SF in the next four quarters.
- Vacancy and rents both increased year-over-year. Vacancy grew to 4.8% as deliveries outpaced absorption. Both higher-priced space delivering to the market, as well as overall demand, drove strong yet decelerating 12-month rent growth of 5.1%.

Major Transactions

- Performance Food Group signed a 350,000-SF lease with a subsidiary of Scannell Properties, which officially broke ground in December on a $96-million, build-to-suit facility in NorthPark business park. PFG is relocating and expanding into the larger Ferguson facility which will eventually house over 400 employees.
- Bloom Medicinals announced in December it will fully occupy the 100,000-SF facility at 320 South Cool Springs Rd. in O'Fallon, Missouri which will deliver by 2Q24.
- IDI Distributors will be the first tenant at the new Hazelwood Business Park. The former STL Mills mall has been converted to 1.2 MSF of industrial space in 2023.

Outlook

- Uncertainty reigns in the macroeconomic outlook. Occupiers and investors alike will approach deals with greater caution as a result, impacting leasing and investment activity.
- Market vacancy will increase further as additional new construction delivers this year combined with slower overall leasing activity. St. Louis is in a favorable position as rampant over supply has not occurred during or after the pandemic.
- Rent growth, aggressive from 2021 through 2023, will continue to reduce its pace of growth throughout the next four quarters; however, marquee submarkets with limited offerings will retain prime rent levels.

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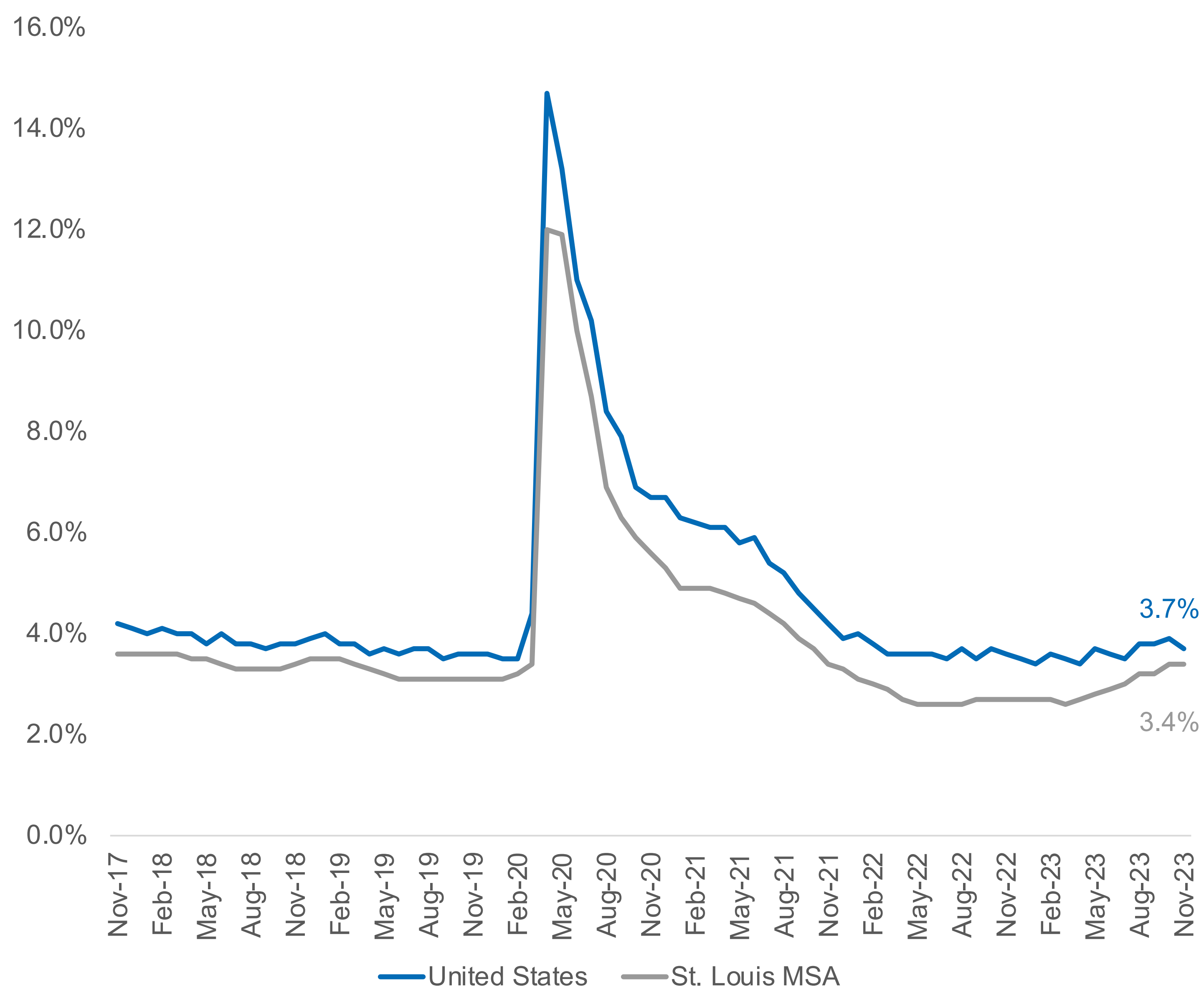
Economy

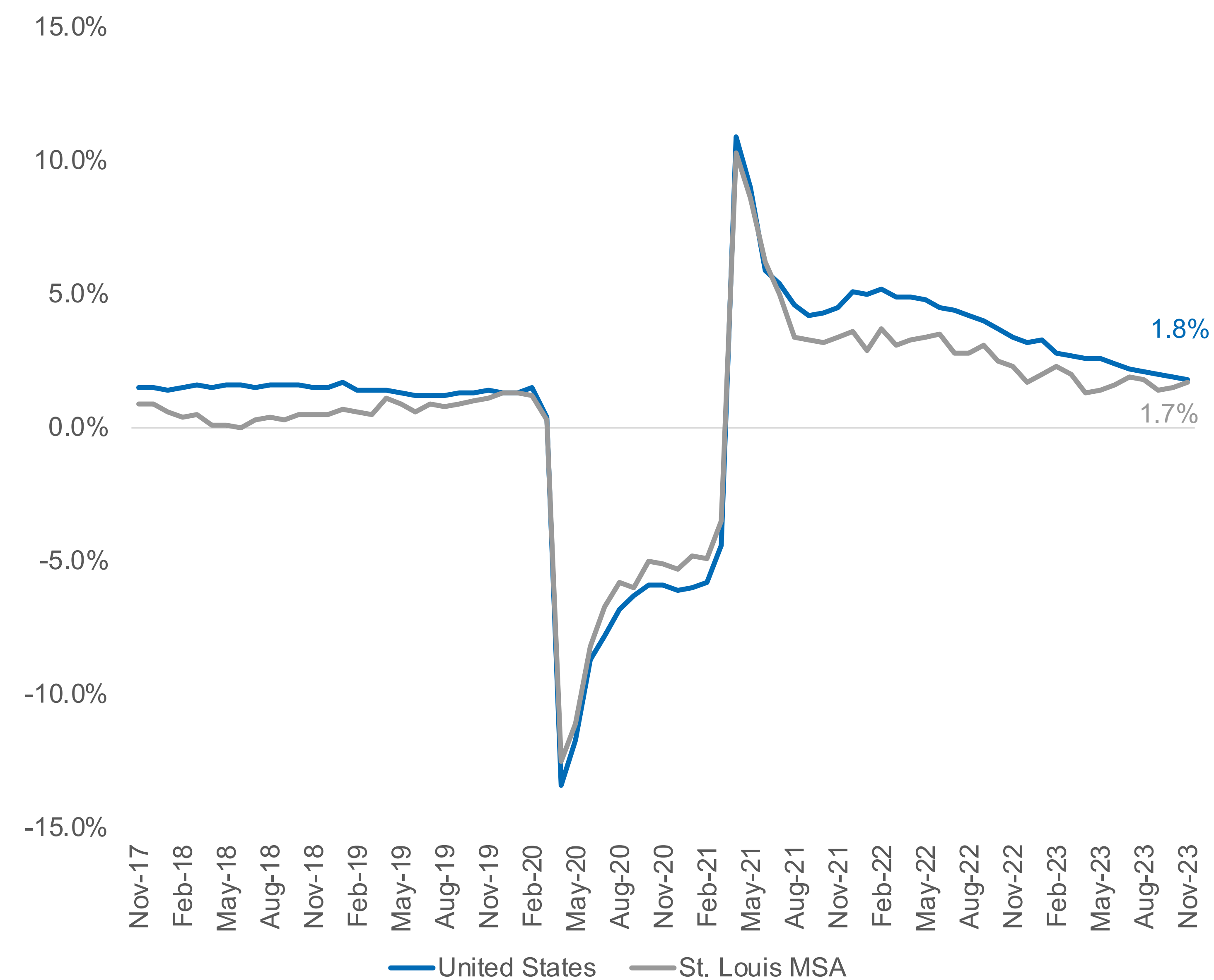
Metro Employment Trends Signal a Slowing Economy

While the region's labor market remains on relatively solid footing, cracks are beginning to show amid persistently high inflation and increasing interest rates. Unemployment in the region recovered from the pandemic and remains 30 bps below the national average.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

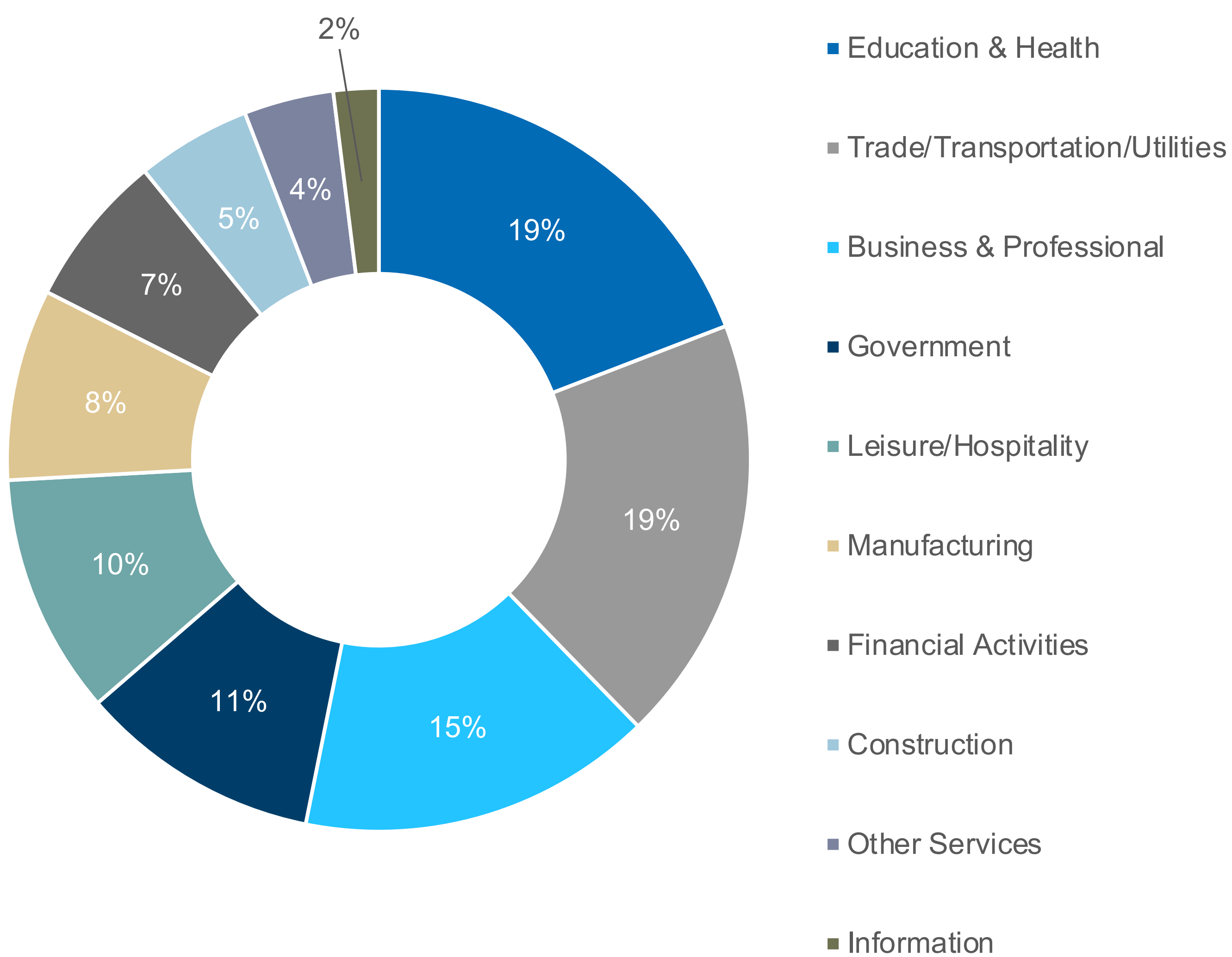


Source: U.S. Bureau of Labor Statistics, St. Louis MSA

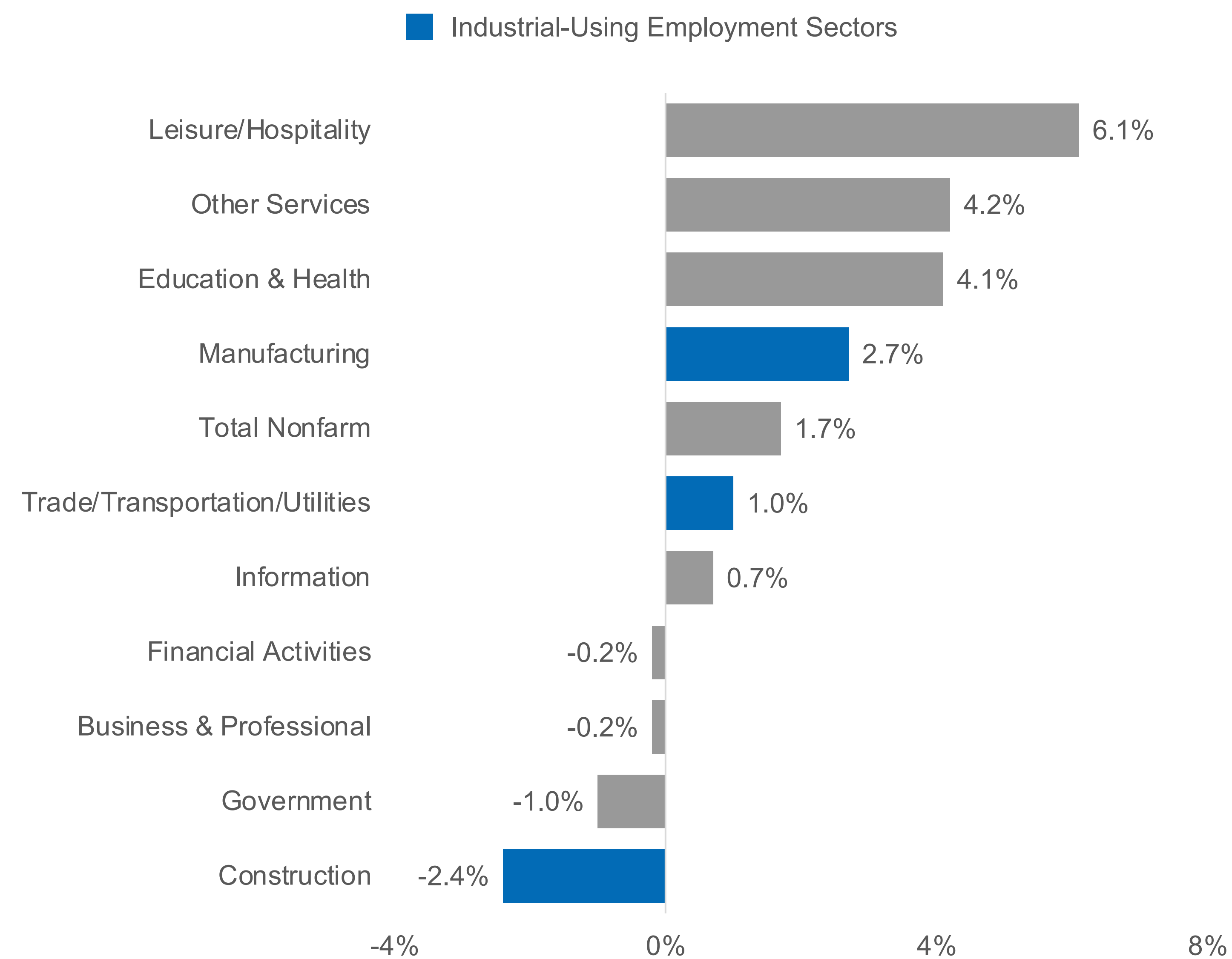
Job Growth Driven Primarily by Services Still Making up for Pandemic Losses

The leisure/hospitality sector led all industries in regional annual job growth, underlining an industry still grappling with making up for pandemic losses amid a greater shift in spending from goods in favor of services. Two of the three industrial-occupying industries, including manufacturing and trade/transportation/utilities, saw annual job gains.

Employment by Industry, November 2023



Employment Growth by Industry, 12-Month % Change, November 2023

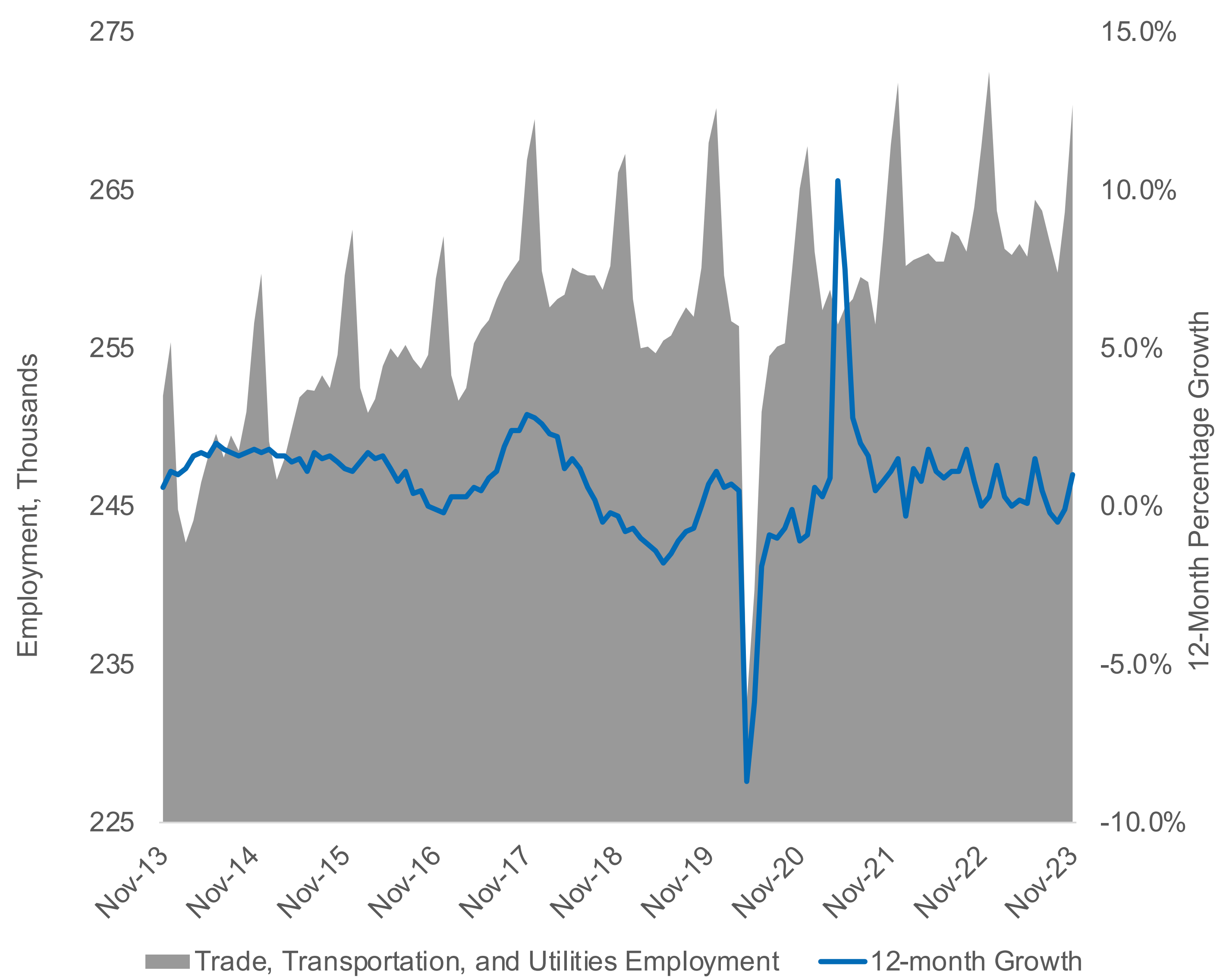


Source: U.S. Bureau of Labor Statistics, St. Louis MSA

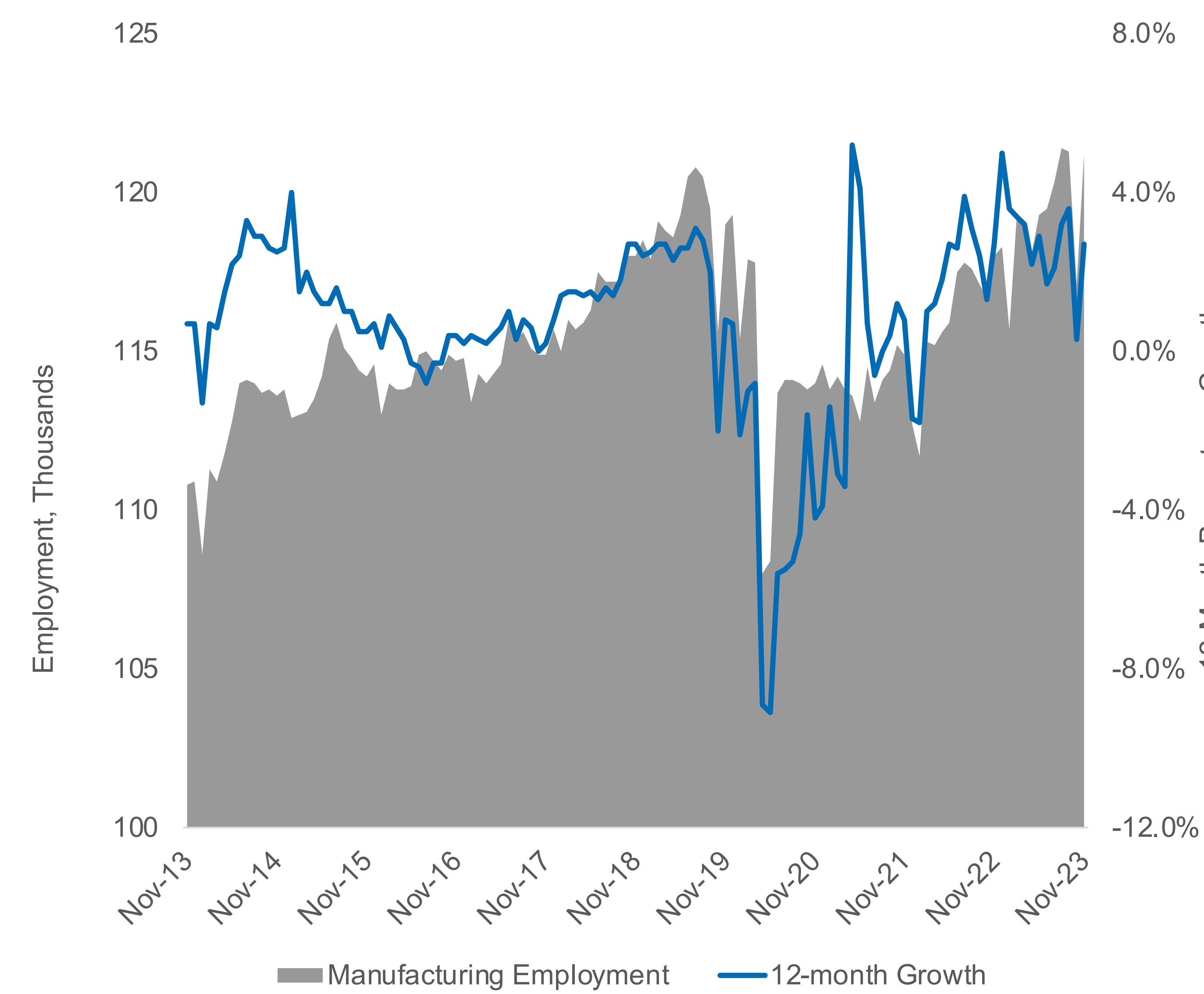
Overall Industrial-Using Employment Has Rebounded

The number of industrial jobs has rebounded to pre-pandemic levels. While there is a small seasonal dip in employment rates at the beginning of each year, the region has already stabilized and rates are expected to increase. Firms are reacting to the economic climate and a shift in consumer demand by adjusting labor needs.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, St. Louis MSA

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Leasing Market Fundamentals

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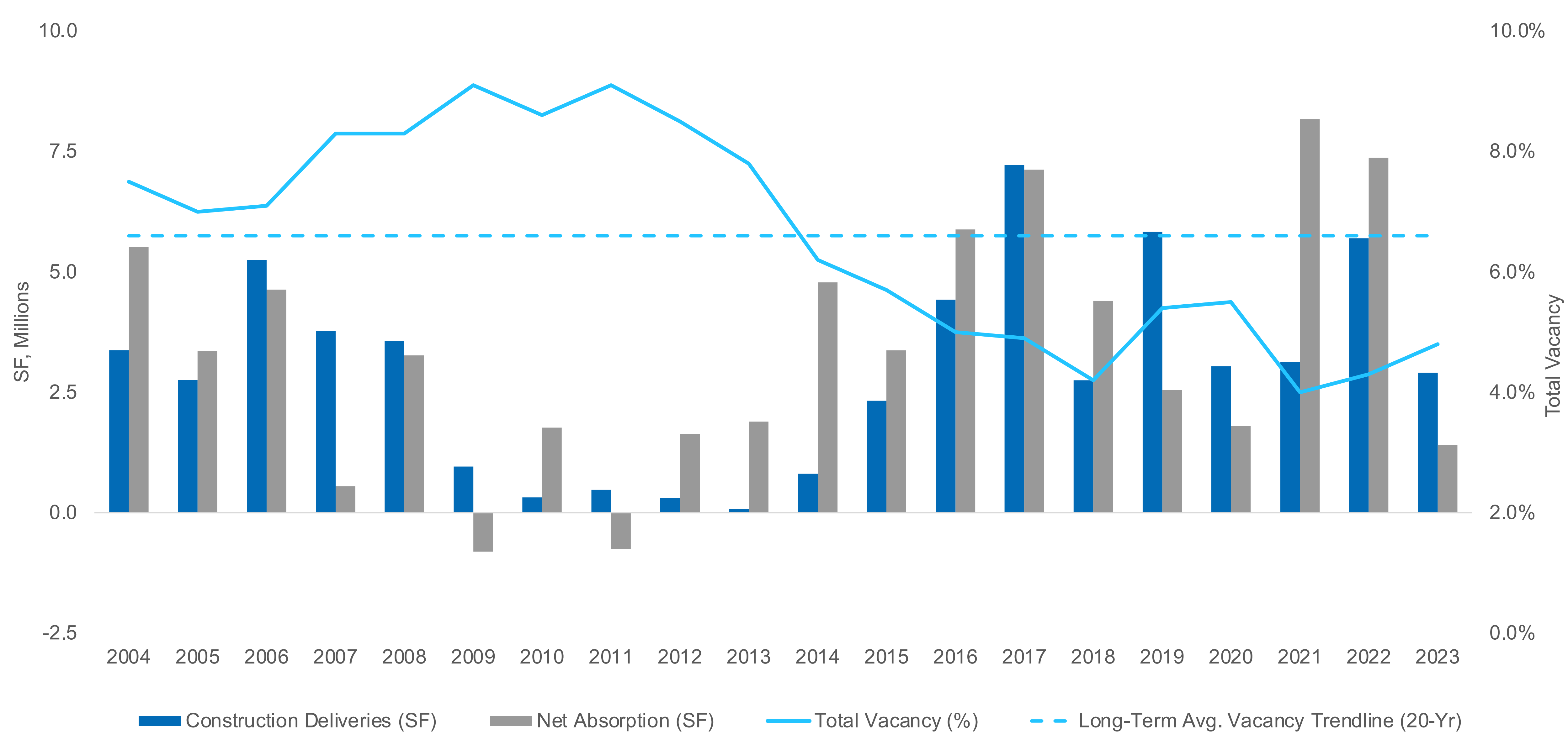
Vacancy Rises as Construction Deliveries Outpace Net Absorption in 2023

Vacancy increased 0.5% (50 bps) to 4.8% year over year as tenants continue to evaluate ever-changing space needs. The market is recalibrating, with vacancy expected to continue to increase over the next few quarters as the economy slows and construction deliveries outpace net absorption, reversing the trend of the last two years. Vacancy is projected to remain under 5.6% during 2024, with stable demand and slowing supply.

Historical Construction Deliveries, Net Absorption, and Vacancy

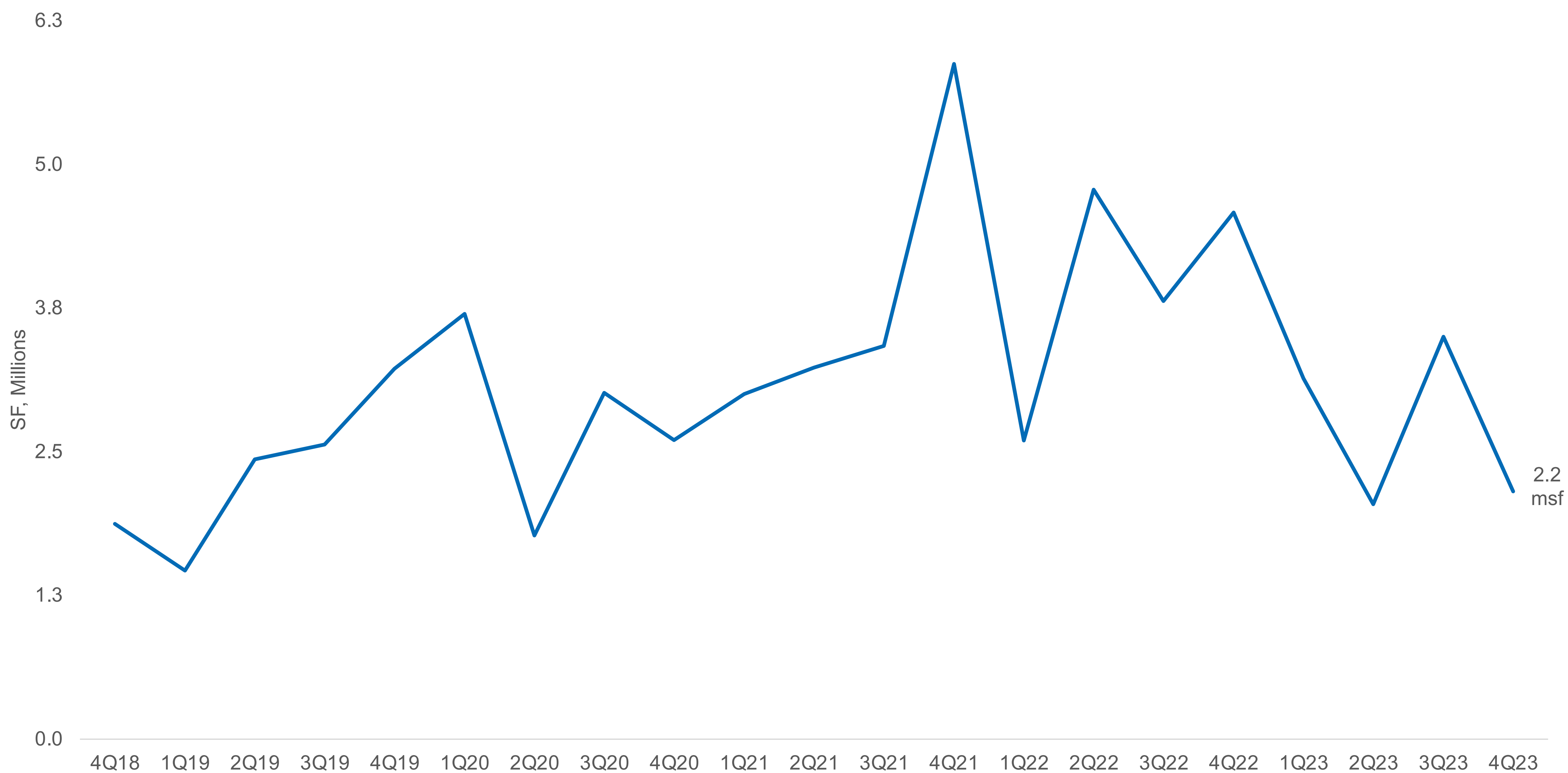


Source: Newmark Research

Industrial Leasing Activity Below Pre-Pandemic Average

In the fourth quarter of 2023, demand for industrial space decelerated to 2.2 million SF after registering 3.5 million SF of leasing activity last quarter. Volume during 2023 is down 16.7%, compared with the historical four-year average from 2019 to 2022.

Total Leasing Activity (SF)

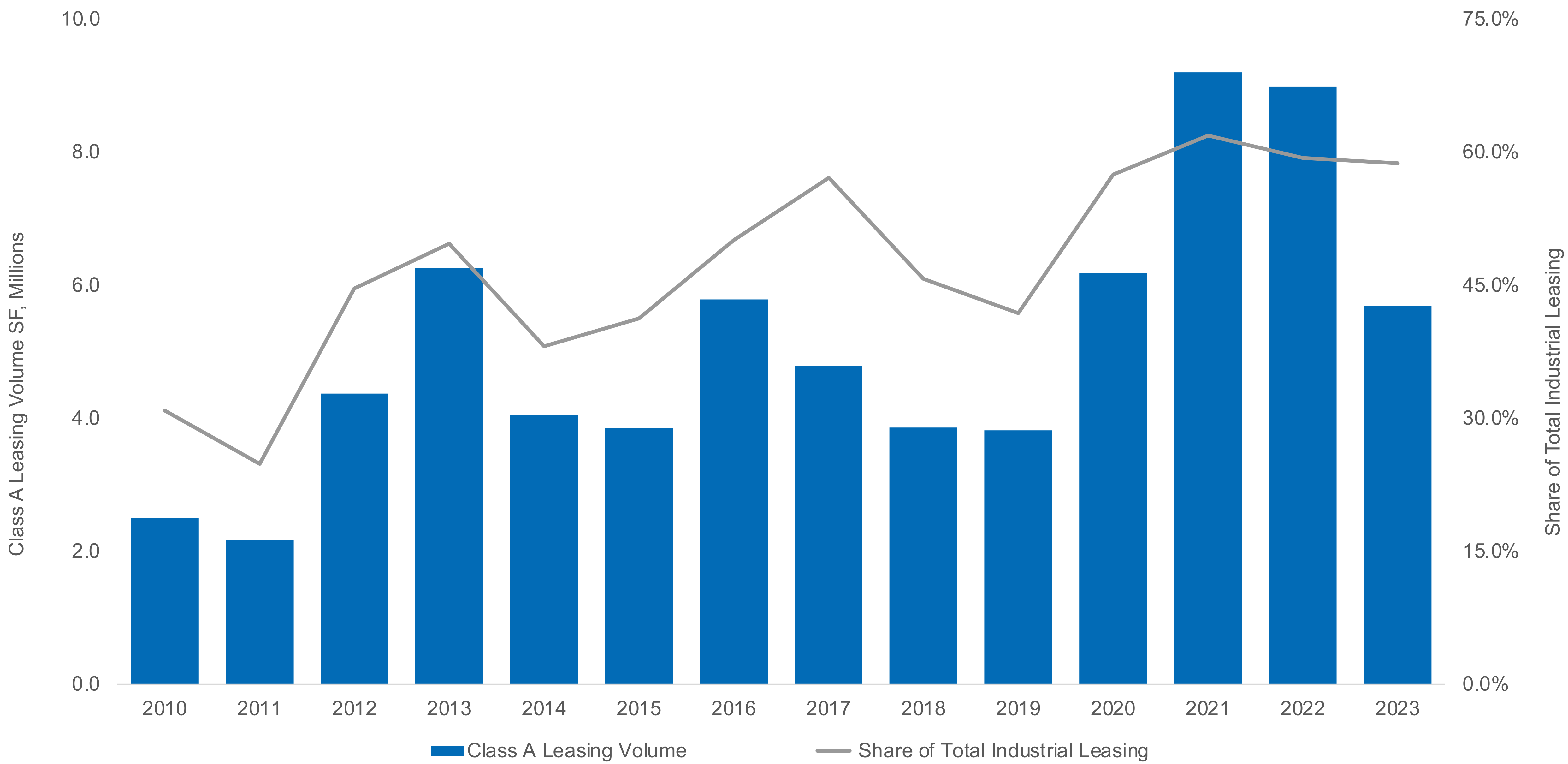


Source: Newmark Research, CoStar

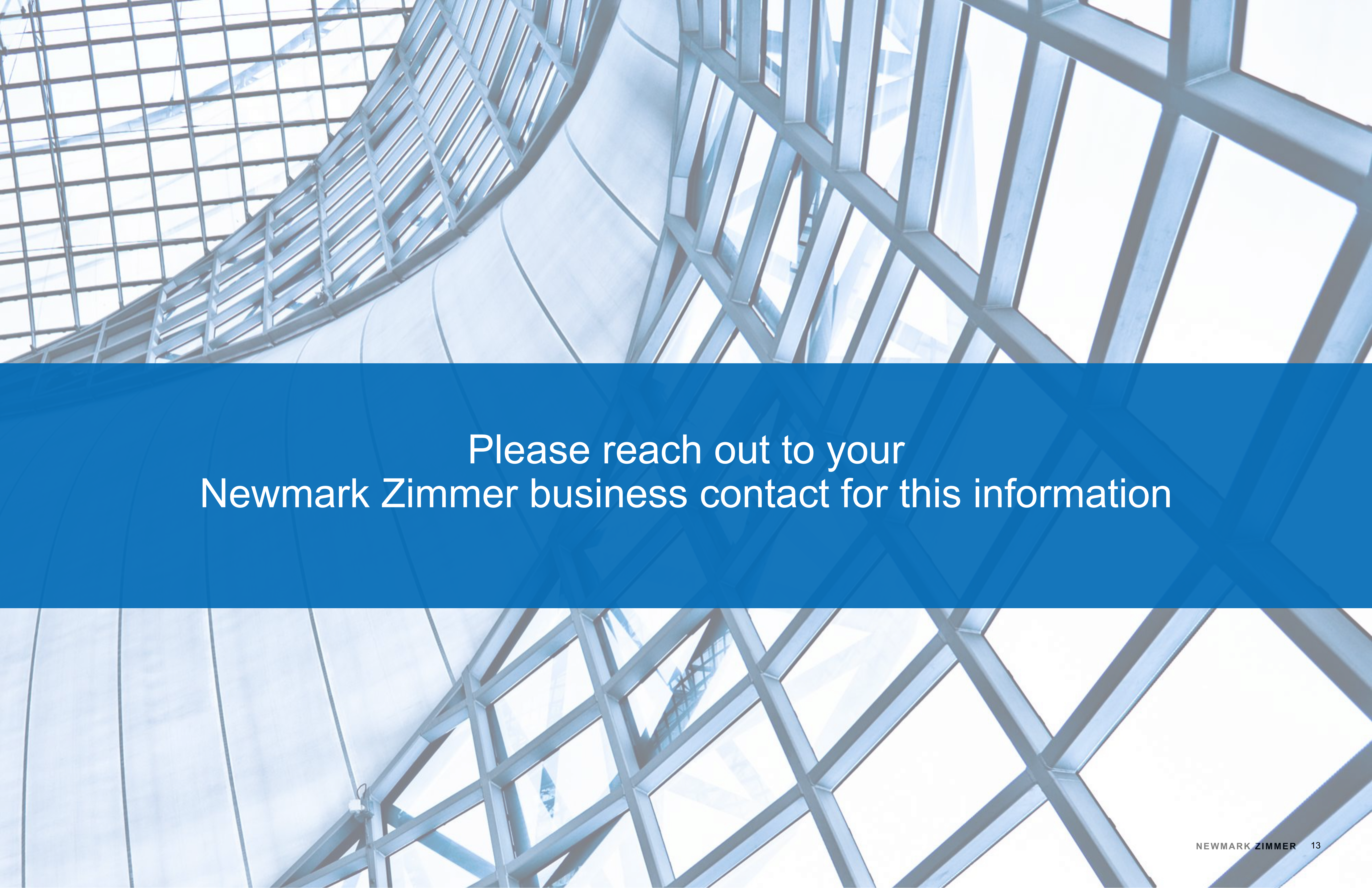
Class A Warehouse Leasing Percentage Above Pre-Pandemic Average

Secondary markets like St. Louis have seen slower developer response to occupier needs for modern Class A warehouse space, but as development accelerated over the past few years, Class A leasing rose in turn. Class A warehouse leasing represented 58.8% of overall activity in 2023, down from a recent high of 61.9% but above the pre-pandemic average of 47.2% from 2015 to 2019.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume



Source: Newmark Research, CoStar



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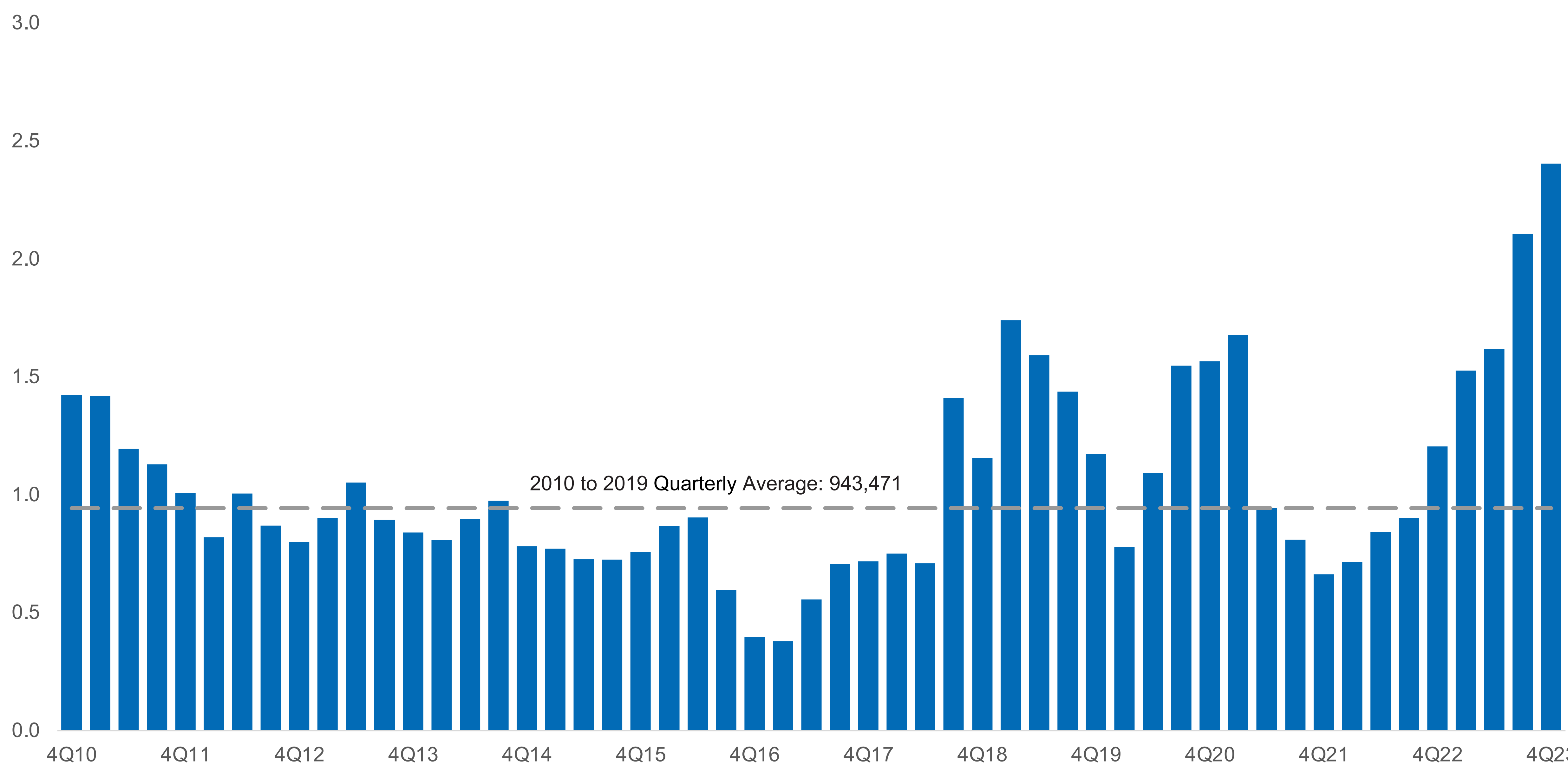
Industrial Sublease Availability Spikes Above Pre-Pandemic Levels

Sublease availability volume in the fourth quarter of 2023 reached a new record of 2.4 million SF, more than two-and-a-half times the long-term average of 943,471 SF. The rate at which subleases were added to the market has accelerated over the past eight quarters in St. Louis and across most industrial markets in the U.S. Rising interest rates, an inflationary environment and declining consumer demand are driving some firms to control costs, which includes putting excess or underutilized space up for sublease.

Available Industrial Sublease Volume (MSF)

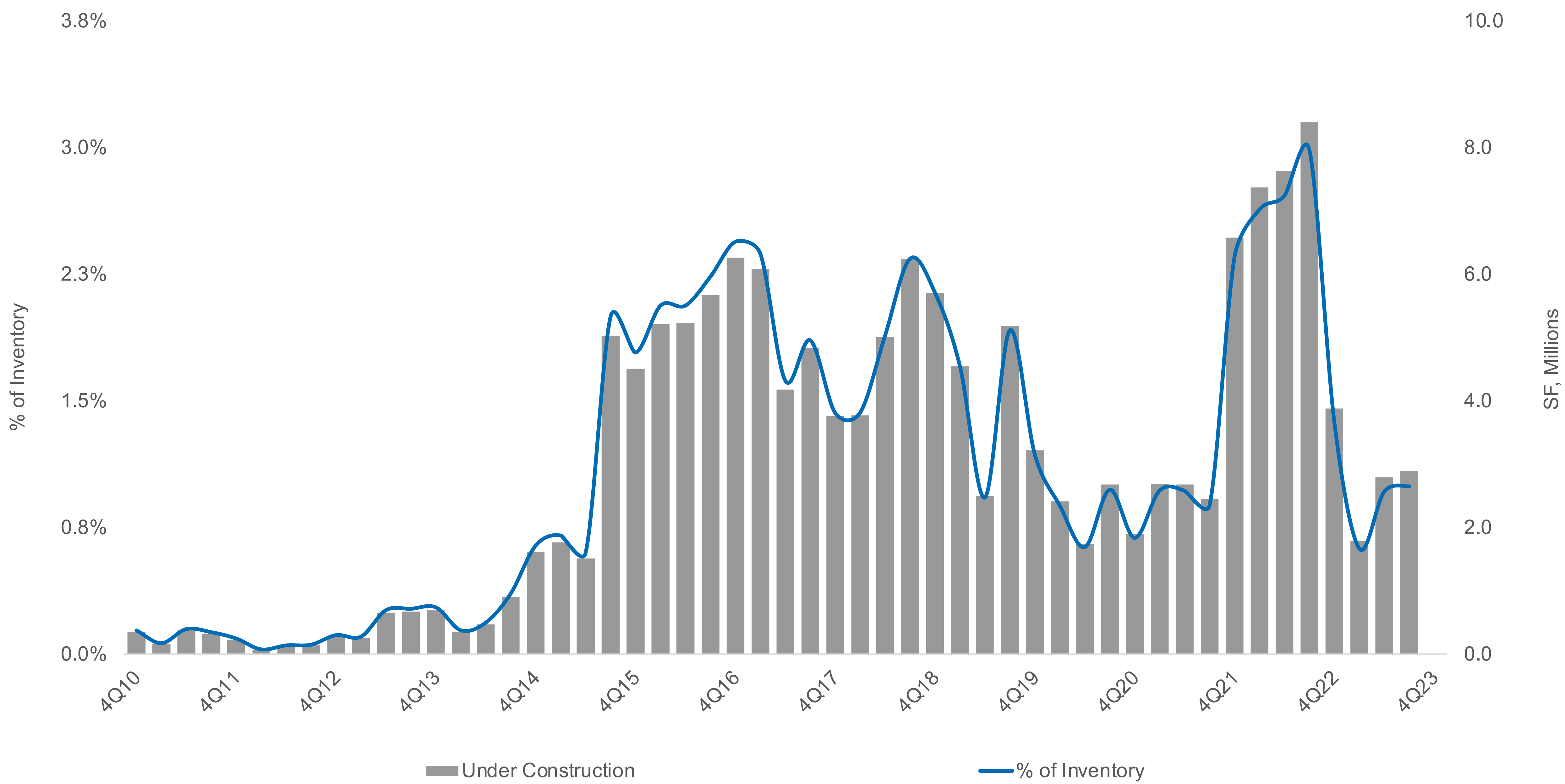


Source: Newmark Research, CoStar

Industrial Supply Pipeline Eases as Construction Starts to Lessen

The construction pipeline has trended downward after reaching a historic high of 8.4 million SF in the third quarter of 2022. At 2.8 million SF, the construction pipeline will accelerate towards 3.4 million SF over the next four quarters; however, a few developers are pausing new projects, with some exiting land positions amid slowing leasing activity and a challenging financing environment for new construction. Expect speculative construction in 2024 to be somewhat limited compared with the past three years.

Industrial Under Construction and % of Inventory



Source: Newmark Research, CoStar

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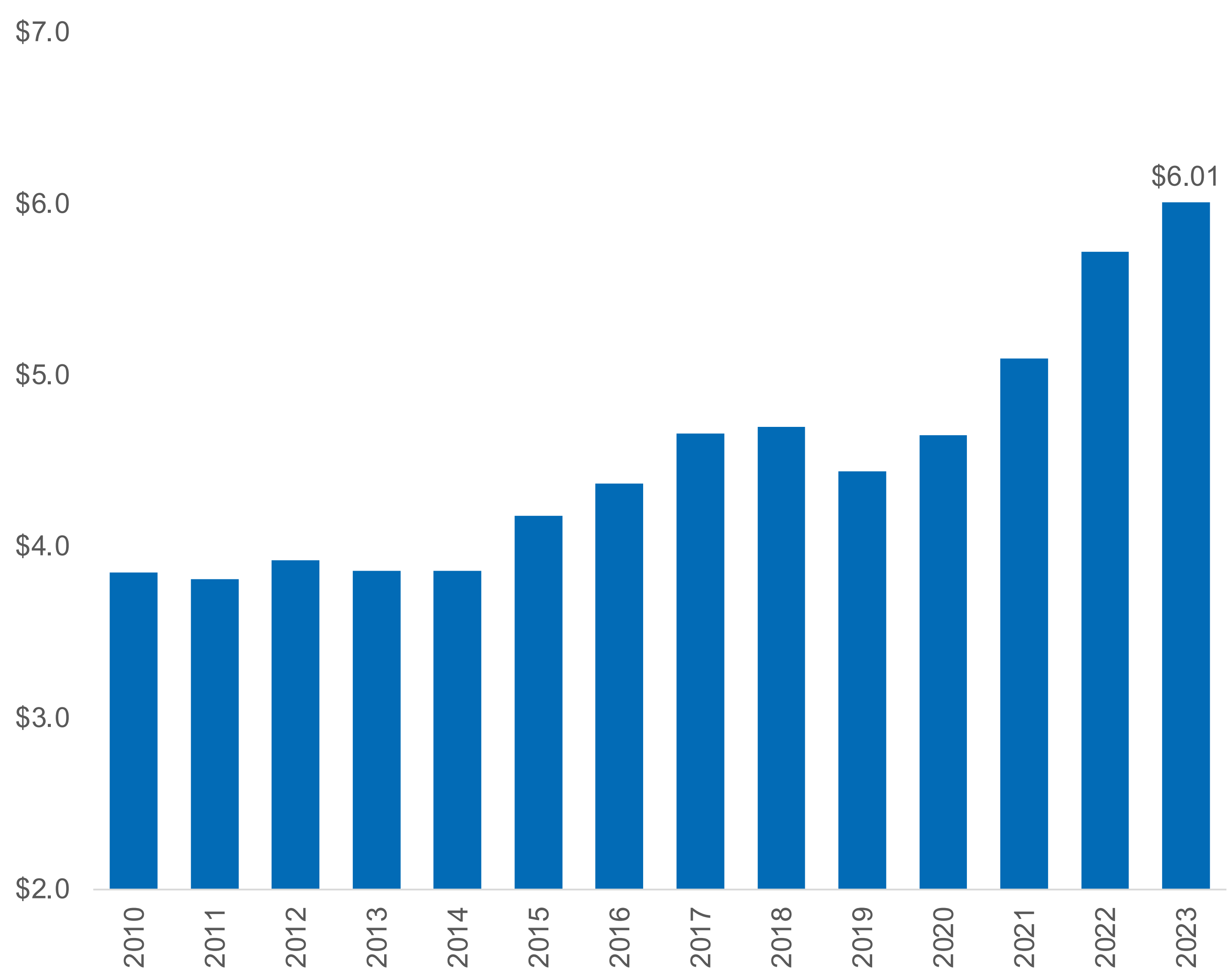
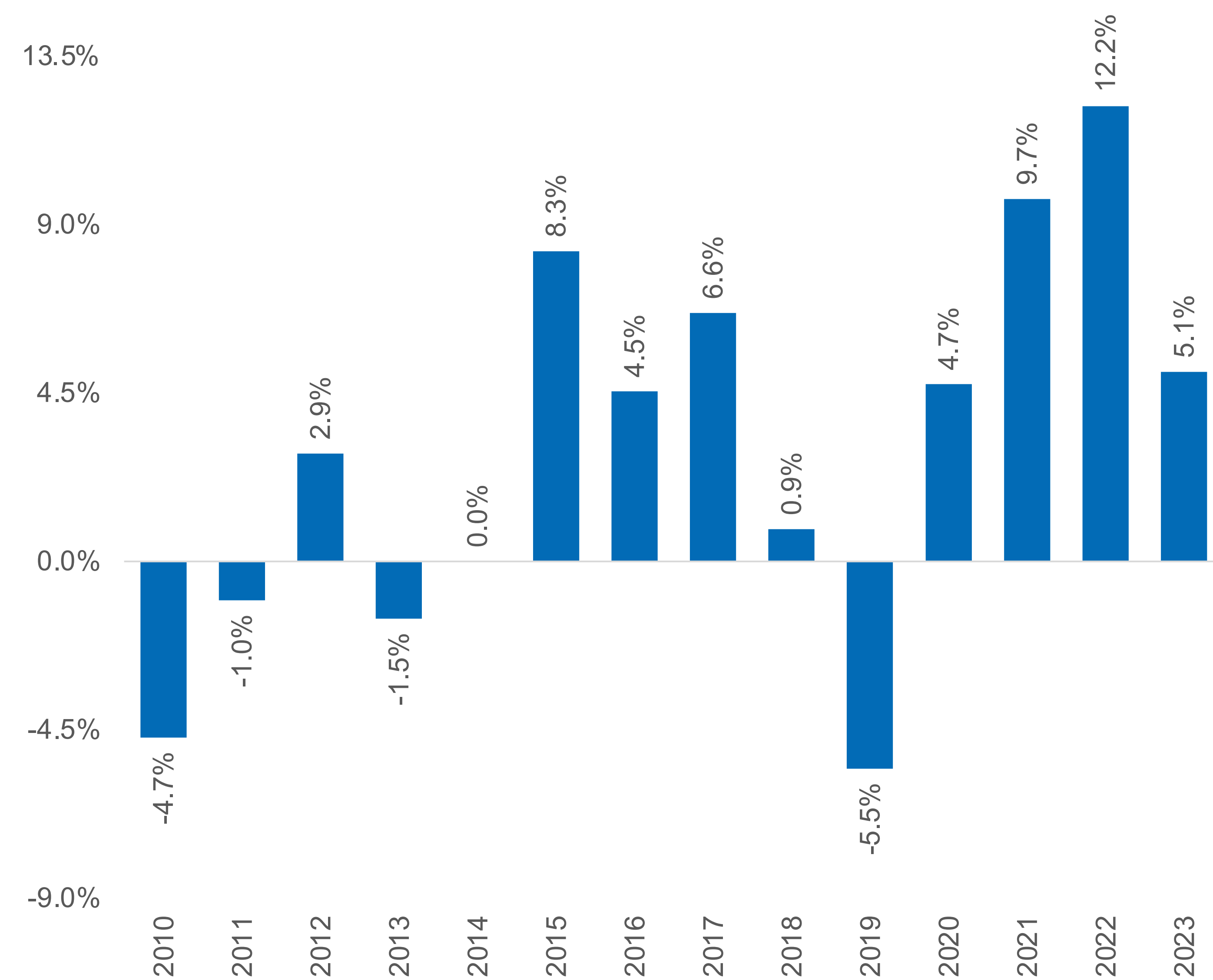
Record-Pace Industrial Asking Rent Growth Continues into 4Q23

Industrial average asking rents increased by a record 35.4% since the fourth quarter of 2019. Expect higher-priced quality space coming online and landlord concessions to help maintain decent asking rent growth; however, the overall rent growth pace is expected to moderate over the next four quarters.

Industrial Average Asking Rent, $/SF, NNN



Year-Over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

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Notable 4Q23 Lease Transactions

The market loosened slightly during the fourth quarter of 2023, displaying a reduced pace of leasing activity, especially for bulk warehouse properties above 150,000 SF in size. Expect the North County, Metro East and St. Charles County submarkets to lead the local market for the next four quarters. Net absorption totaled 6.2 million SF in North County, 4.4 million SF in Metro East and 2.6 million SF in St. Charles County during the past three years, due to robust leasing activity and competitive rental rates.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Performance Food Group, Inc.	5321 Hern Drive	North County	Direct New	350,000
Performance Food Group, Inc. signed a lease with a subsidiary of Scannell Properties, which officially broke ground in December on a $96-million, 350,000-SF build-to-suit facility in NorthPark business park. The national food distributor is relocating from 3737 N. Broadway in St. Louis and expanding into a larger facility in Ferguson, eventually housing over 400 employees. PFG was awarded a 10-year abatement on real property improvements and new equipment, along with a sales tax exemption for new construction materials for the property.				
Bloom Medicinals	320 S Cool Springs Road	St. Charles County	Direct New	100,000
Bloom Medicinals announced in December it signed a lease for the entire 100,000-SF, single-tenant facility expected to deliver by the second quarter of 2024.				
Latch Inc. (Door.com)	1220 N Price Road	Mid County	Direct New	61,760
The smart locks software firm announced it would relocate its headquarters from New York to Olivette, Missouri and bring 30 jobs to St. Louis in the third quarter of 2023. The firm expanded on the original 48,000 SF in December by leasing an additional 61,760 SF.				
US Chemwest	6501 Hall Street	St. Louis City	Direct New	39,820
US Chemwest signed a 39,820-SF lease in the 163,490-SF multi-tenant property. The asking rental rate for the 39,820-SF space was offered at a rate of $5.85/SF prior to the lease.				
IDI Distributors	5555 St. Louis Mills Boulevard	North County	Direct New	30,000
IDI Distributors, a foam spray insulation supplier, announced it will be the first tenant at the new Hazelwood Business Park development, at the site of the former St. Louis Mills mall. Industrial Commercial Properties, LLC converted the mall into approximately 1.2 MSF of industrial space during 2023, a trend which continues across the U.S. as formerly obsolete retail space comes off the market.				

Source: Newmark Research

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Submarket Statistics

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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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