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St. Louis Industrial Market Overview

Market Observations

Economy

- The region's labor market remained historically strong amid shifting macroeconomic conditions. February's 3.5% unemployment rate was significantly lower than the 4.3% 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. Education & Health 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: Construction, by 2.6% and Trade/Transportation/Utilities, by 1.2%.

Leasing Market Fundamentals

- Net absorption in the first quarter of 2024 totaled negative 1.1 million SF. Total net absorption during the past four quarters was 371,710 SF. The market is recalibrating as the economy slows and construction deliveries outpace net absorption, reversing the trend of the last two years.
- The 2.5-million-SF construction pipeline has trended downward over the past two quarters and is expected to accelerate towards 3.2 million SF in the next four quarters.
- Vacancy increased 60 basis points to 5.4% during the quarter as deliveries outpaced absorption. Asking rental rate growth for the overall market year over year has been below average, totaling only 1.7%.

Major Transactions

- World Wide Technology signed a lease for the entire 455,900-SF Gateway Panattoni Building II located within Gateway Commerce Center.
- Allstates WorldCargo announced in February it subleased 150,390 SF within the 421,800-SF multi-tenant facility at 422 Hazelwood Logistics Center Dr. The sublease is for a three-year term.
- Marson Foods officially opened its $35.0-million facility at Hazelwood Trade Port. The firm signed a lease with NorthPoint Development for 150,000 SF.
- ASMI Surfaces signed a 99,800-SF lease at 737 River Valley Dr. in Maryland Heights.

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 during 2024 due to construction deliveries and slower overall leasing activity. St. Louis is in a favorable position compared to other markets, as rampant over supply has not occurred during or after the pandemic.
- The pace of rental rate growth is expected to decrease during the year as a lack of liquidity forces landlords to lower rents, rather than provide elevated concession packages. Marquee submarkets with limited offerings will retain prime rent levels.

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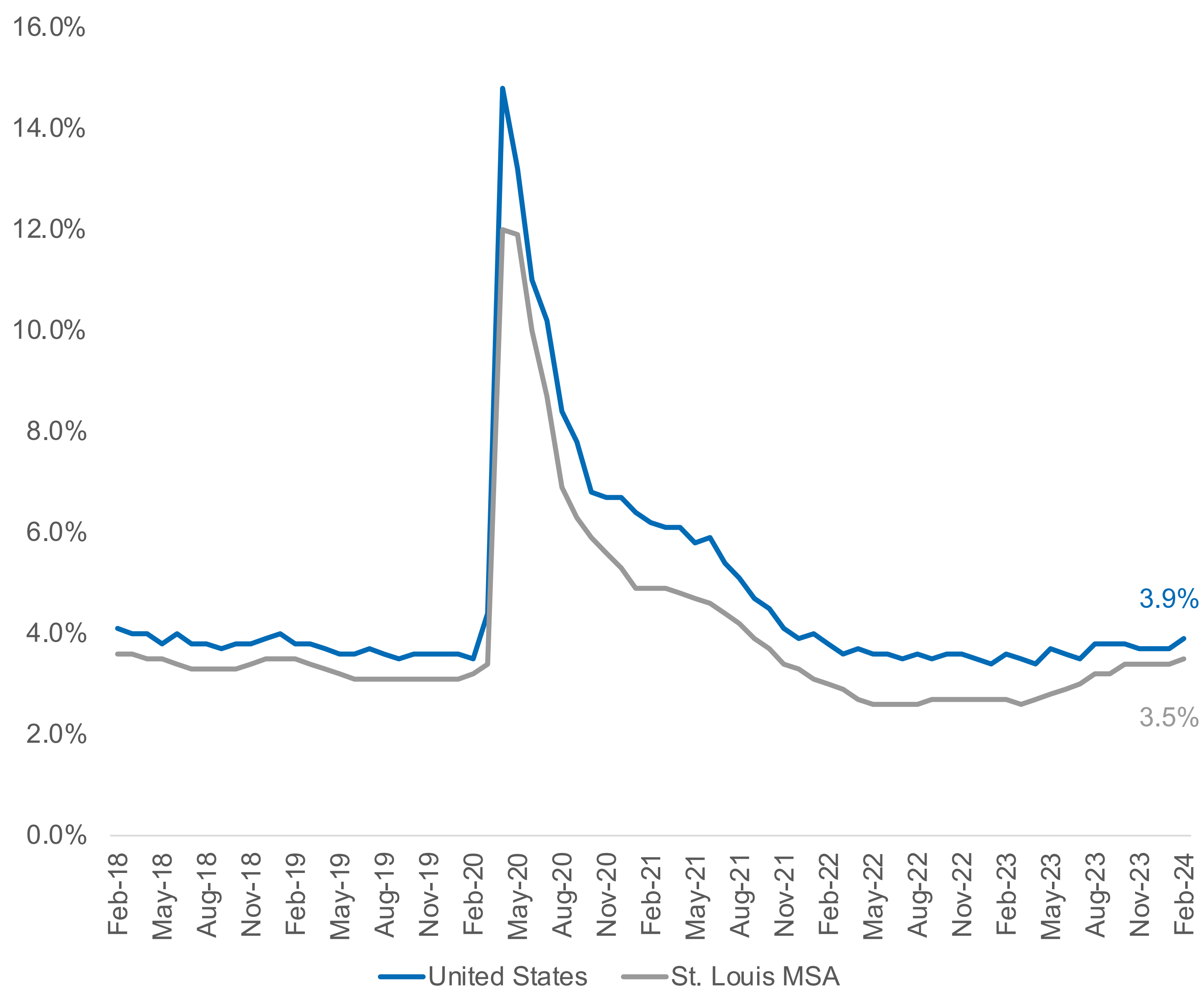
Economy

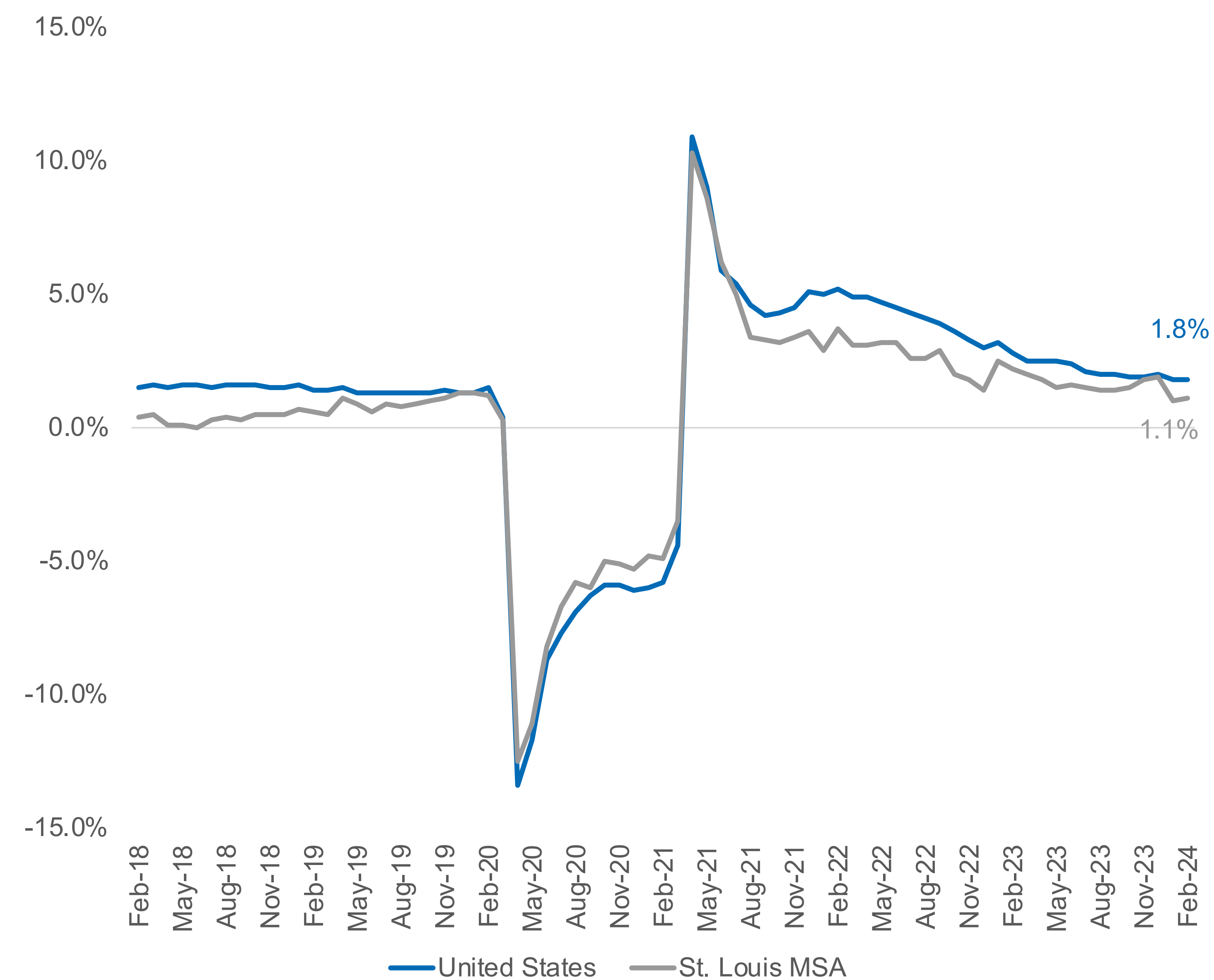
Metro Employment Trends Signal a Slowing Economy

While the region's labor market remains on relatively solid footing, cracks are beginning to show amid persistently high inflation and elevated interest rates. Unemployment in the region recovered from the pandemic and remains 40 bps below the national average.

Unemployment Rate, Seasonally Adjusted



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

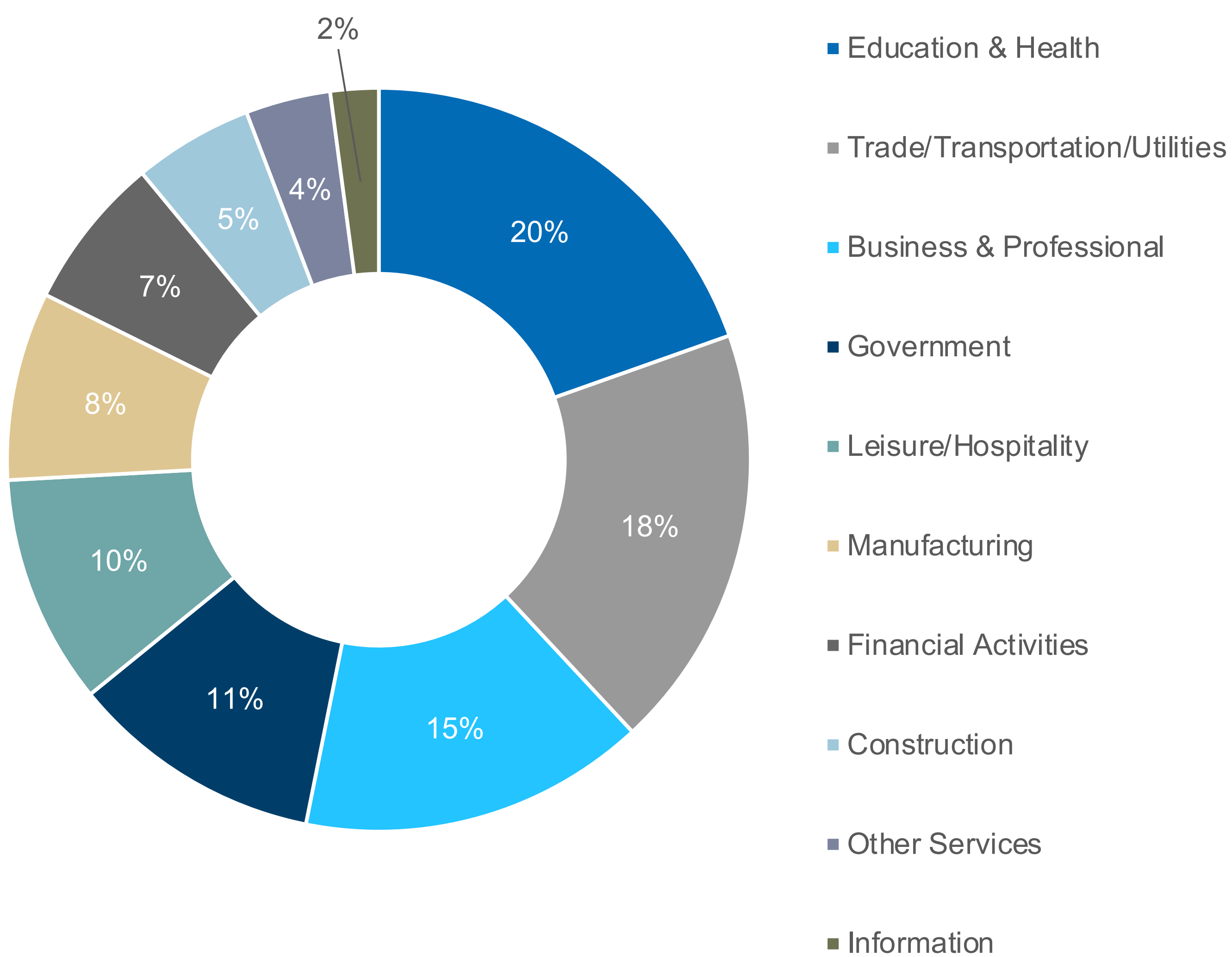


Source: U.S. Bureau of Labor Statistics, St. Louis MSA

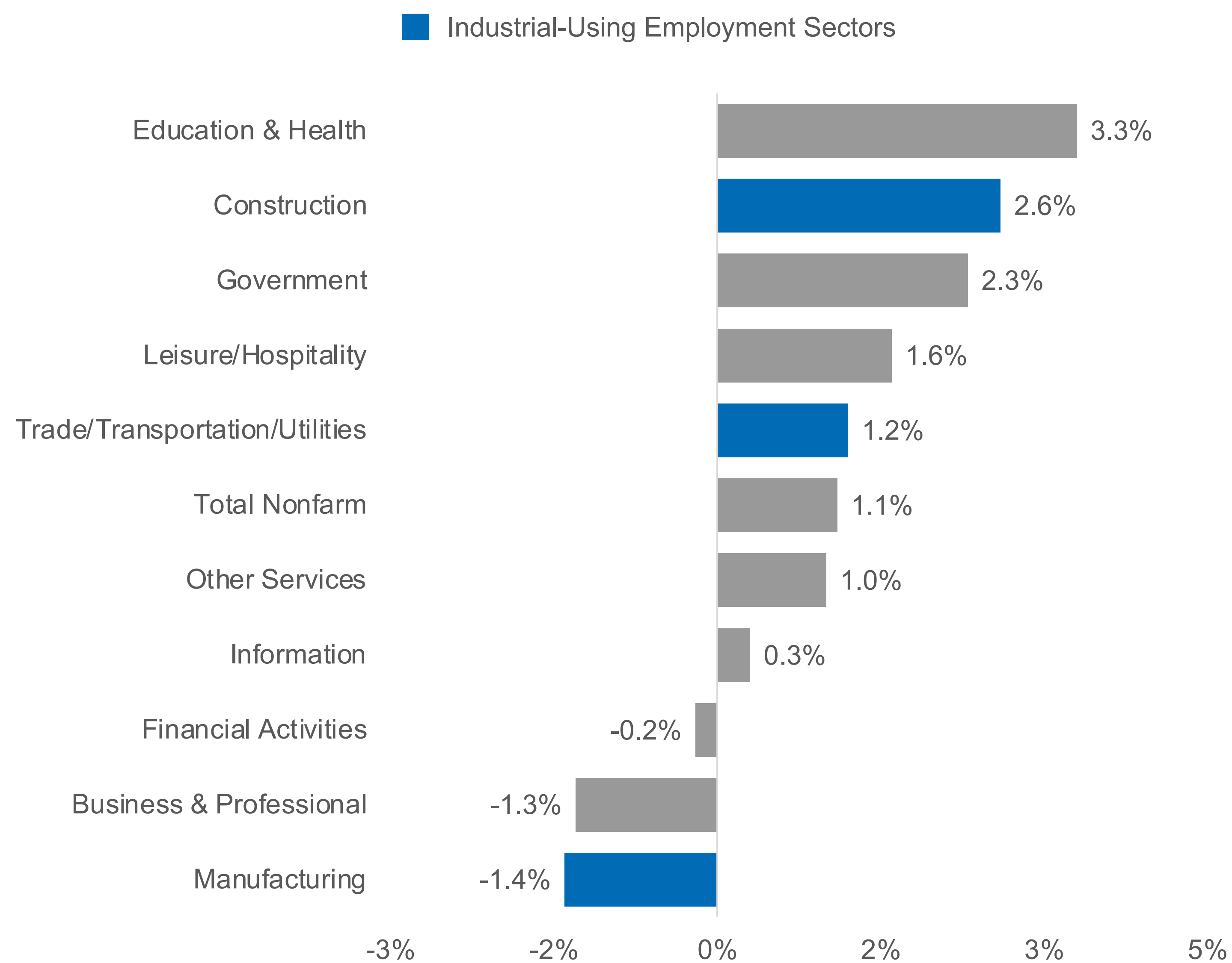
Job Growth Driven Primarily by Services Still Making up for Pandemic Losses

The Education & Health sector led all industries in regional annual job growth. Along with Leisure/Hospitality, these sectors are benefitting from a post-pandemic shift in spending from goods to services, travel and healthcare expenses. Two of the three industrial-occupying industries, including Manufacturing and Trade/Transportation/Utilities, saw annual job gains.

Employment by Industry, February 2024



Employment Growth by Industry, 12-Month % Change, February 2024

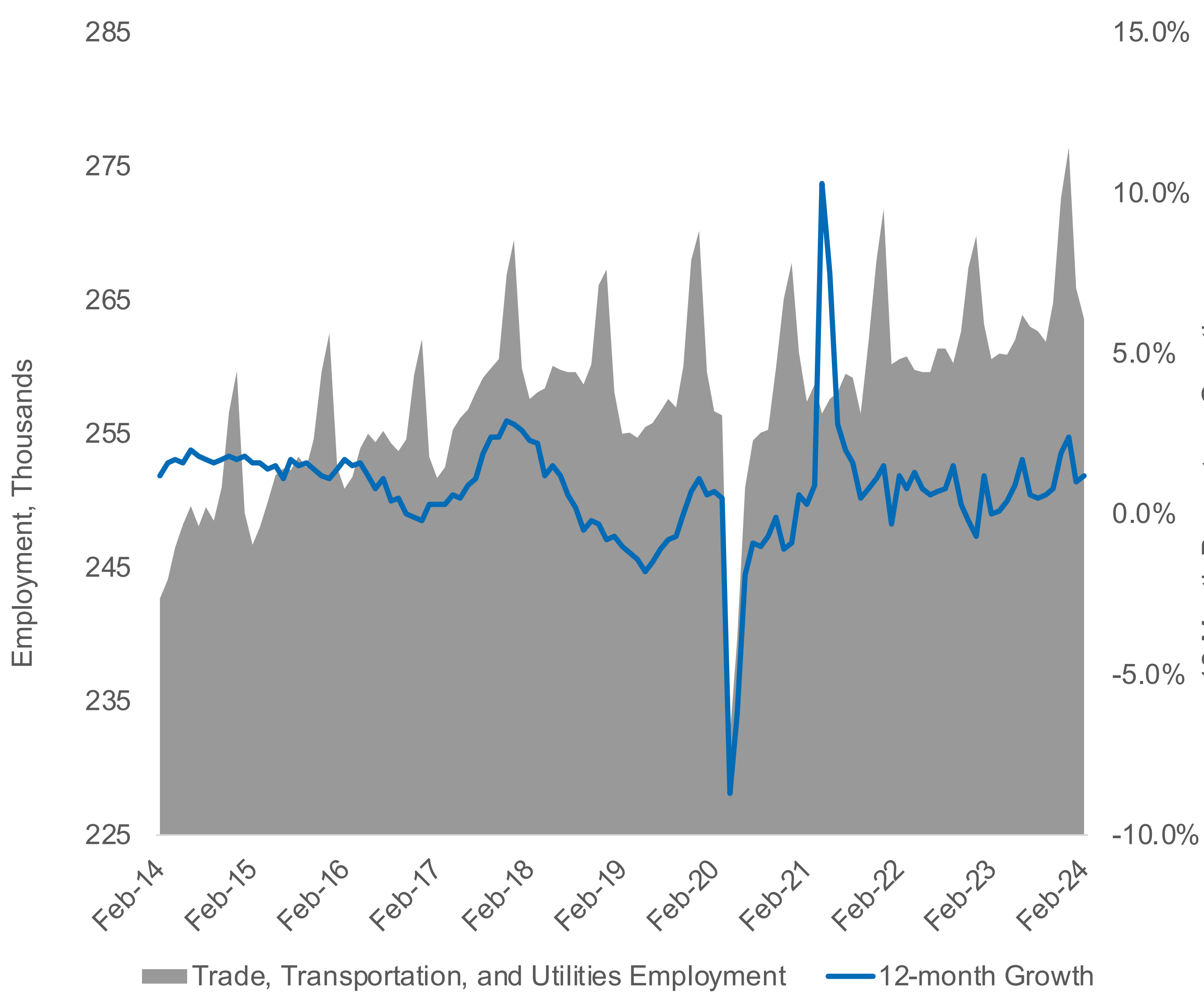


Source: U.S. Bureau of Labor Statistics, St. Louis MSA

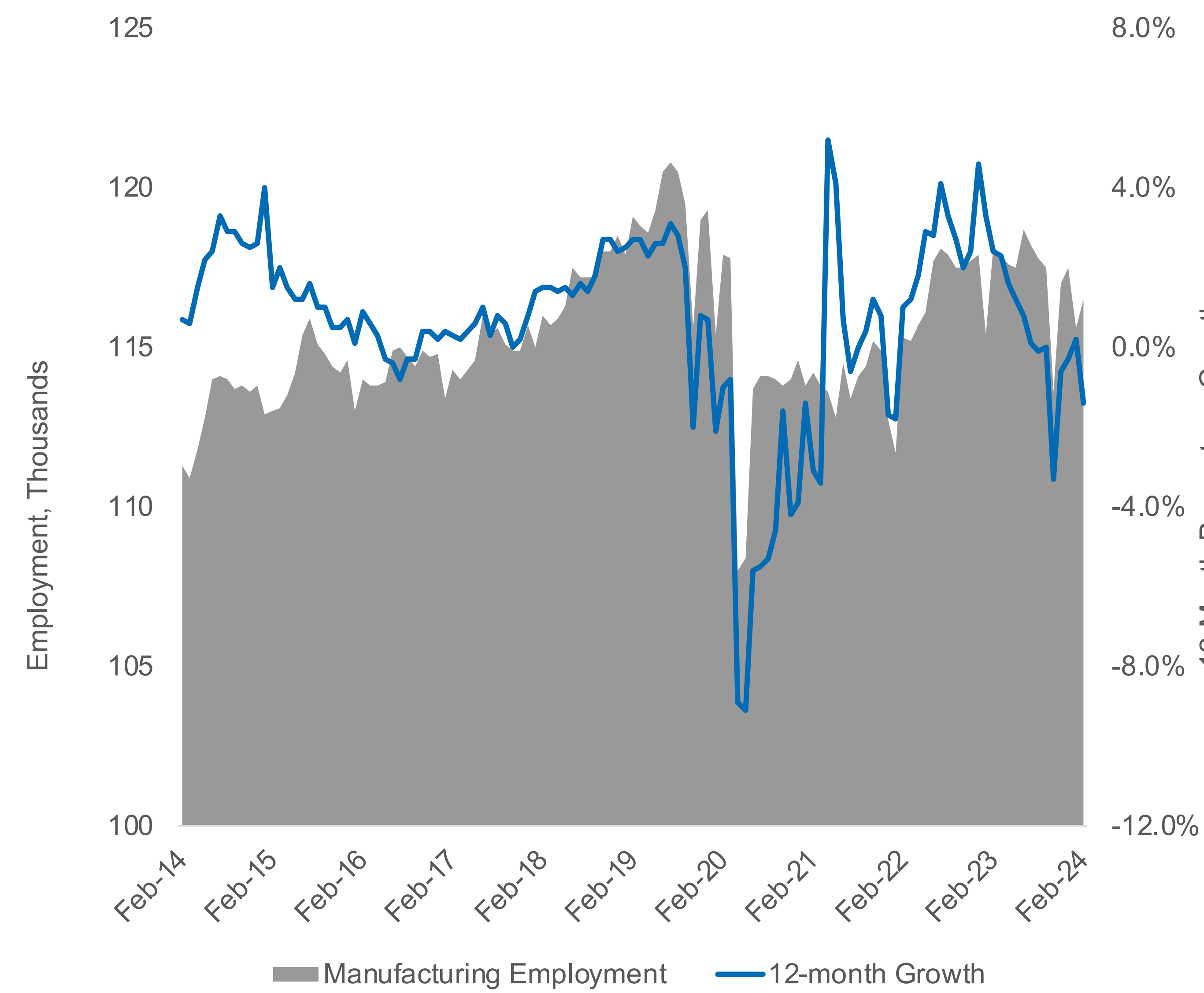
Overall Industrial-Using Employment Has Rebounded

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

Market Overview

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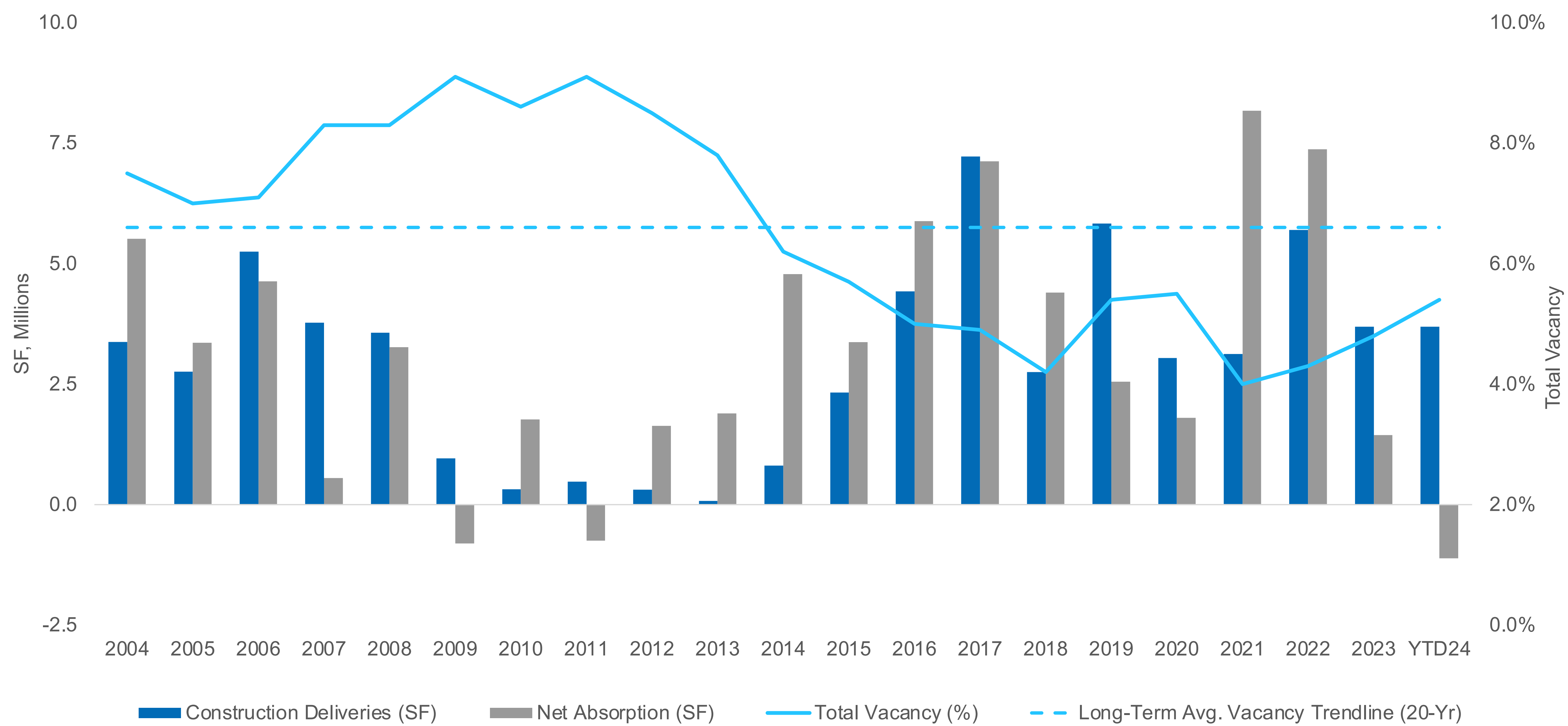
Vacancy Rises as New Leasing Activity Slows and Deliveries Outpace Absorption

Vacancy increased 0.6% (60 bps) to 5.4% year over year as tenants continue to evaluate ever-changing space needs. The market has been recalibrating, with vacancy expected to increase over the next few quarters as the economy slows and construction deliveries outpace net absorption, reversing the trend of 2021 and 2022. A faster pace of leasing activity coupled with a slower pace of supply is expected to keep vacancy under 6.2% during the remainder of 2024.

Historical Construction Deliveries, Net Absorption, and Vacancy

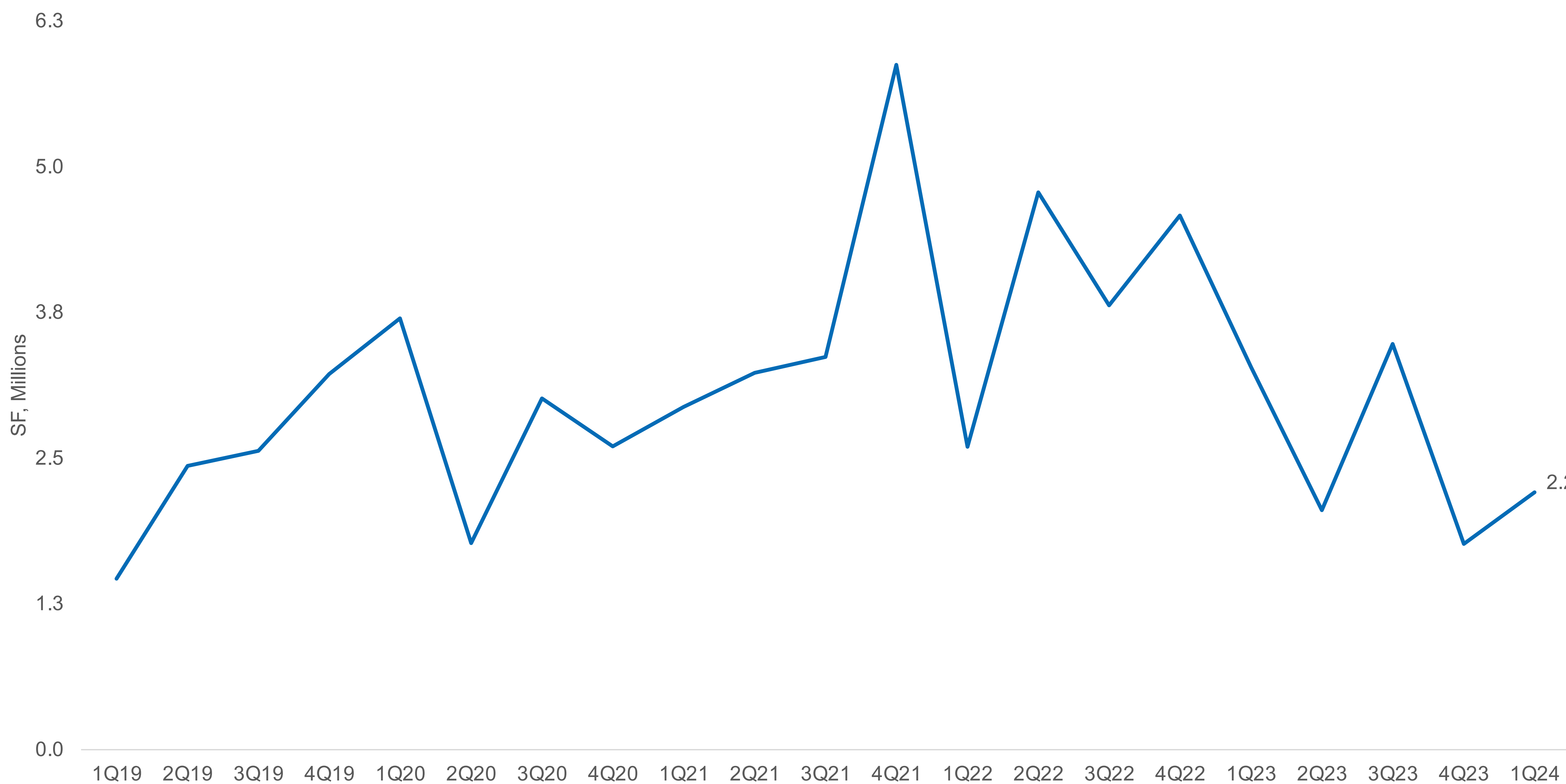


Source: Newmark Research

Industrial Leasing Activity Decelerates

Demand for industrial space registered 2.2 million SF in the first quarter of 2024. The slowdown during the past four quarters is more acute in large bulk buildings, while expectations are that tenant leasing velocity and rent growth will remain active in midsized and small bay industrial spaces. Other factors contributing to the slowdown include lower international trade volume, an uncertain economic climate, the upcoming election and short-term space needs being recently solved exiting the pandemic environment.

Total Leasing Activity (MSF)

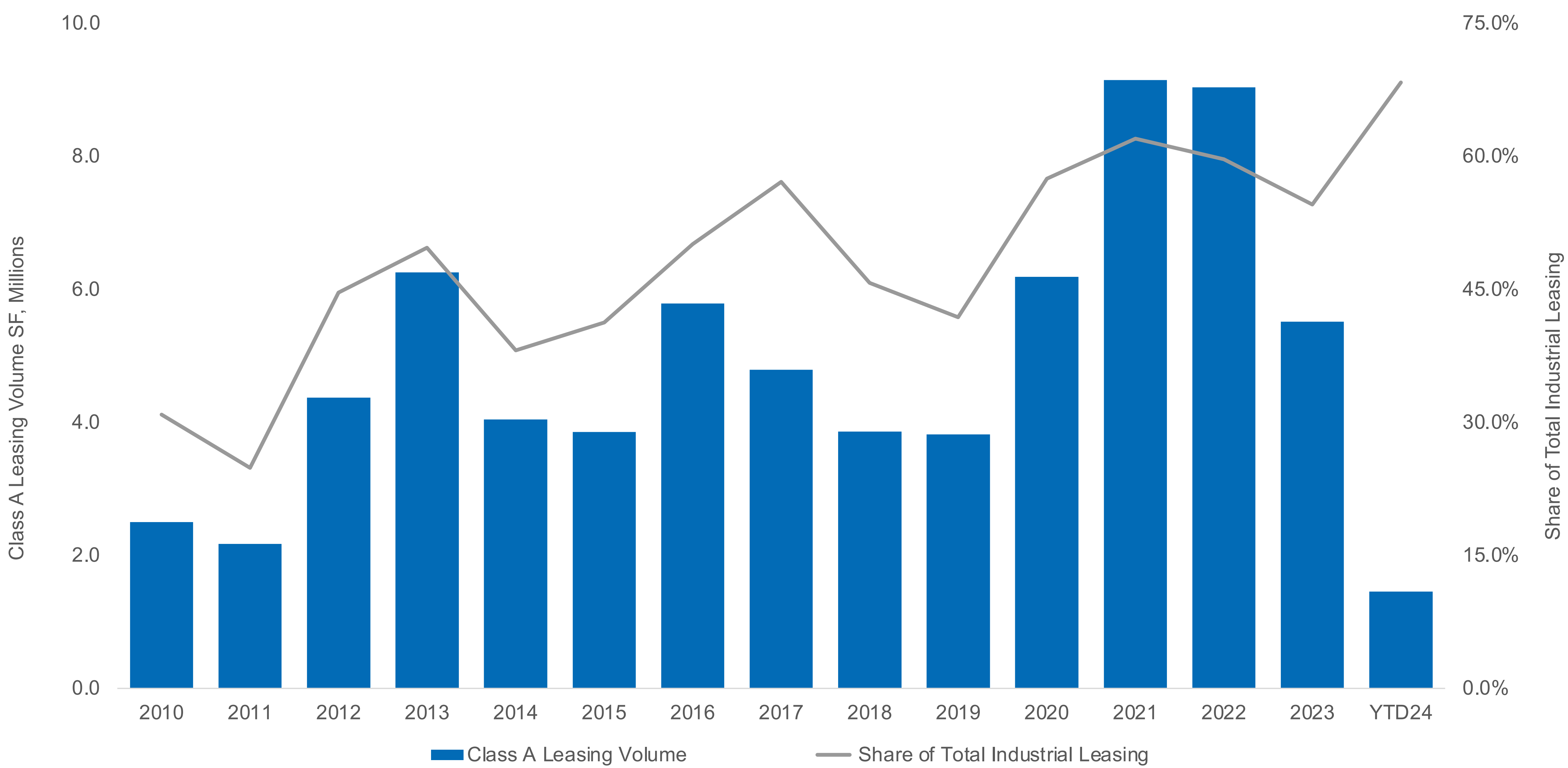


Source: Newmark Research, CoStar

Class A Warehouse Leasing Percentage Above Pre-Pandemic Average

Secondary markets like St. Louis have seen slower developer response to occupier demand for modern Class A warehouse space, but as development accelerated over the past few years, Class A leasing increased in turn. Class A warehouse leasing represented 68.3% of overall activity year to date in 2024, well beyond 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

Vacancy in North Co. and Metro East at More than Twice Other Metro Submarkets

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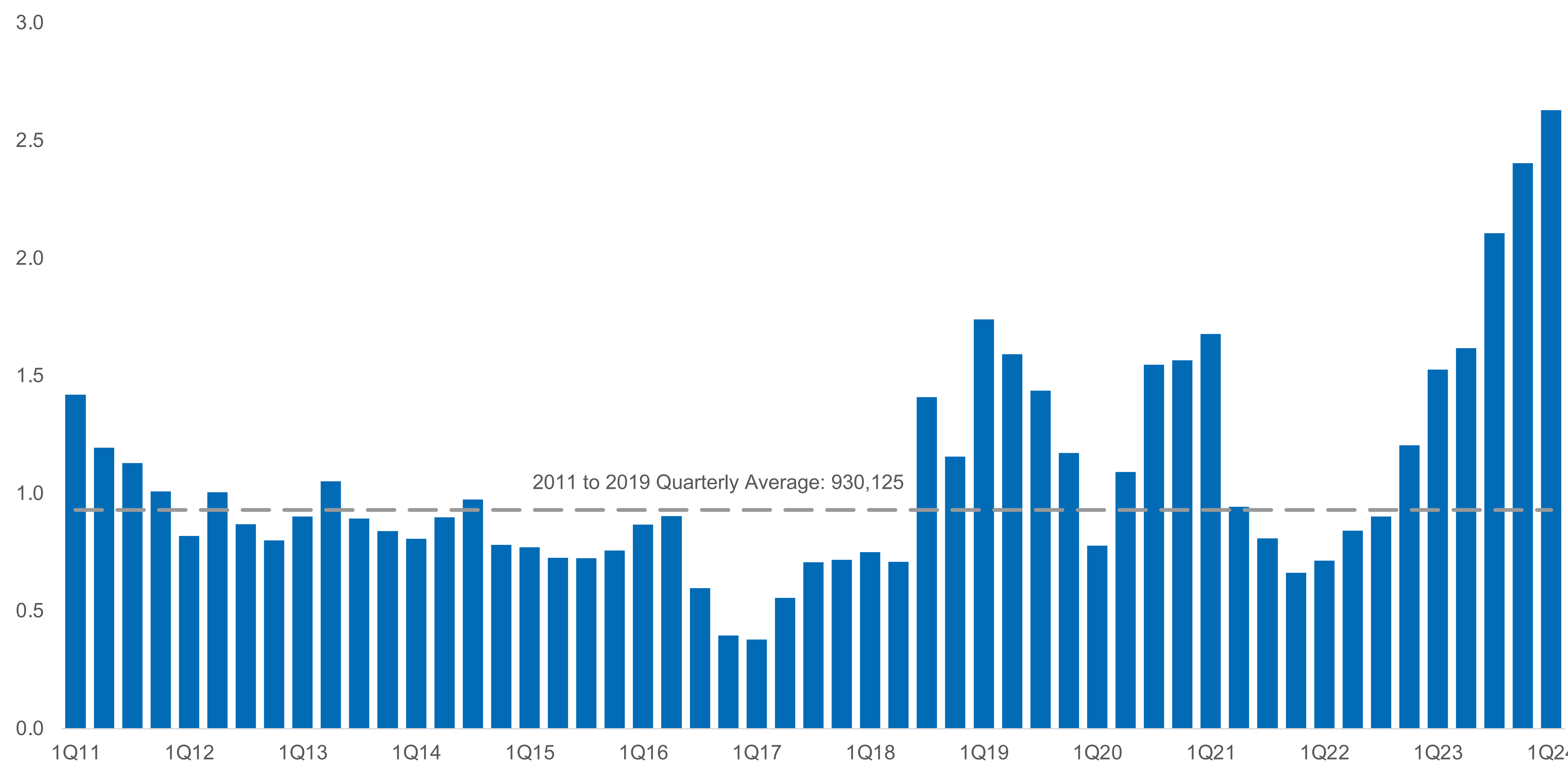
Industrial Sublease Availability Continues Ascent Above Pre-Pandemic Levels

Sublease availability in the first quarter of 2024 reached a new record of 2.6 million SF, more than two-and-a-half times the long-term average of 930,125 SF. The rate at which subleases were added to the market accelerated over the past nine quarters in St. Louis and across most industrial markets in the U.S. High 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)

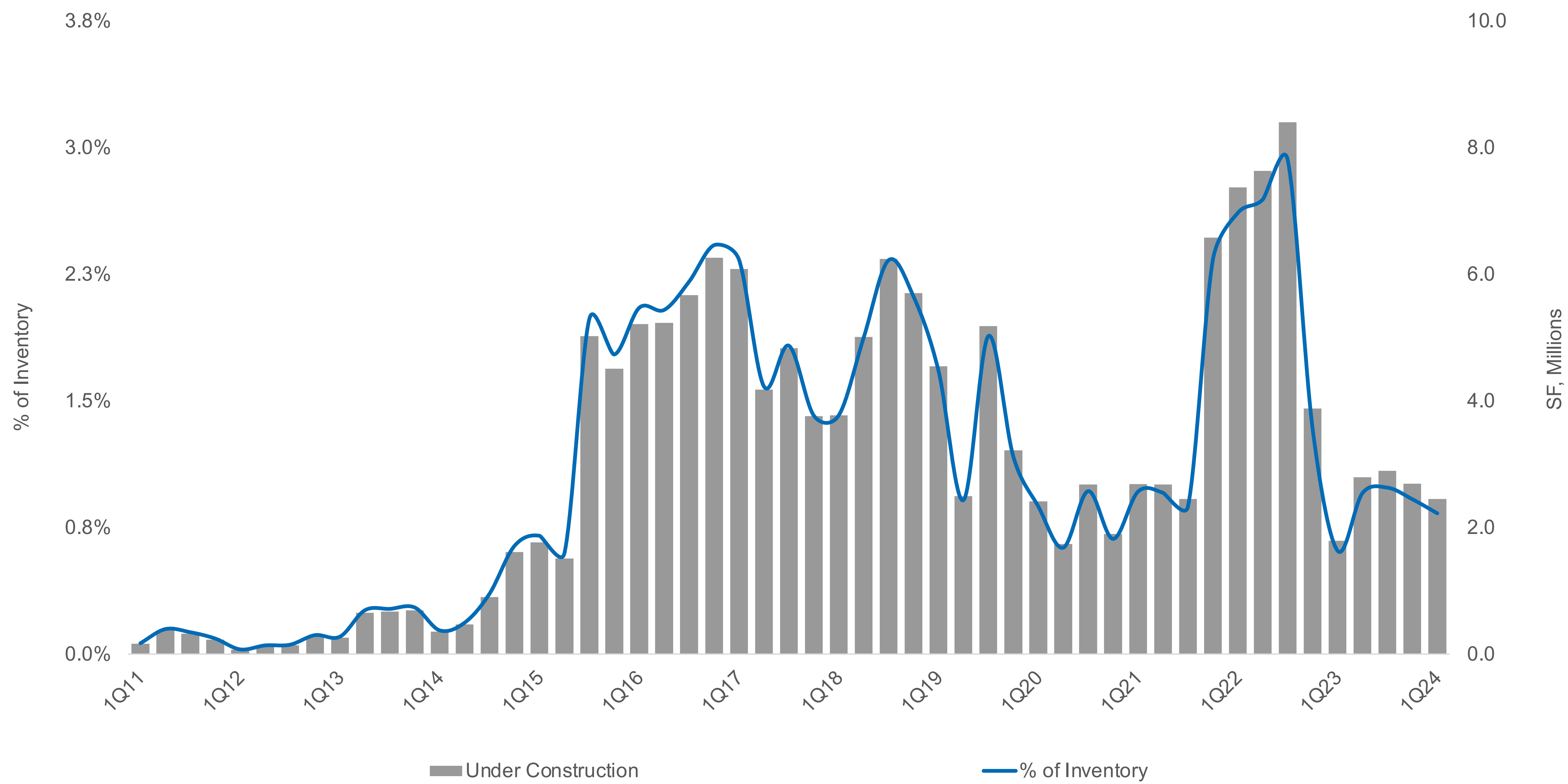


Source: Newmark Research, CoStar

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 2.5 million SF, the pipeline will accelerate towards 3.2 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 limited.

Industrial Under Construction and % of Inventory



Source: Newmark Research, CoStar

Speculative Construction is Concentrated in Small- and Mid-Sized Structures

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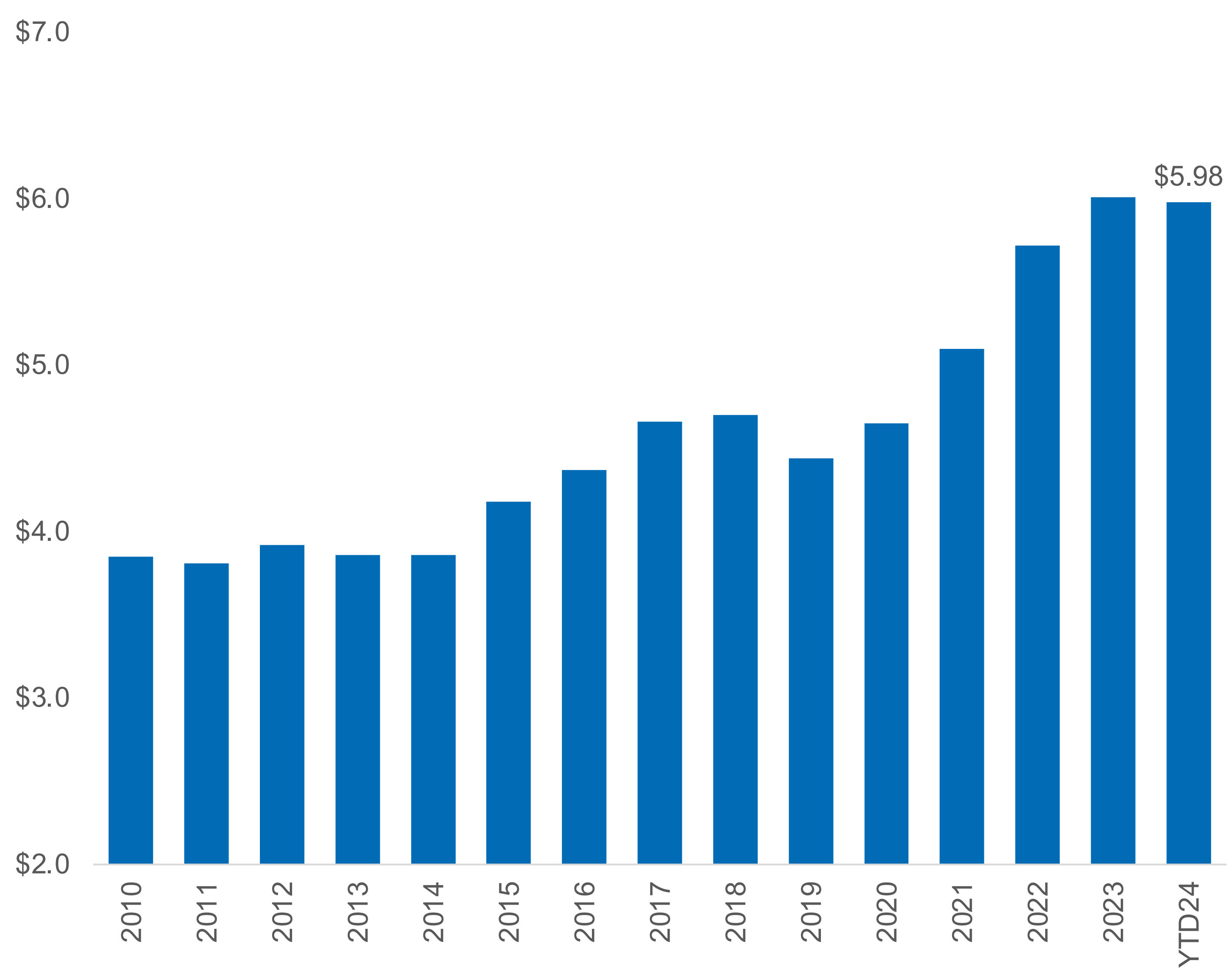
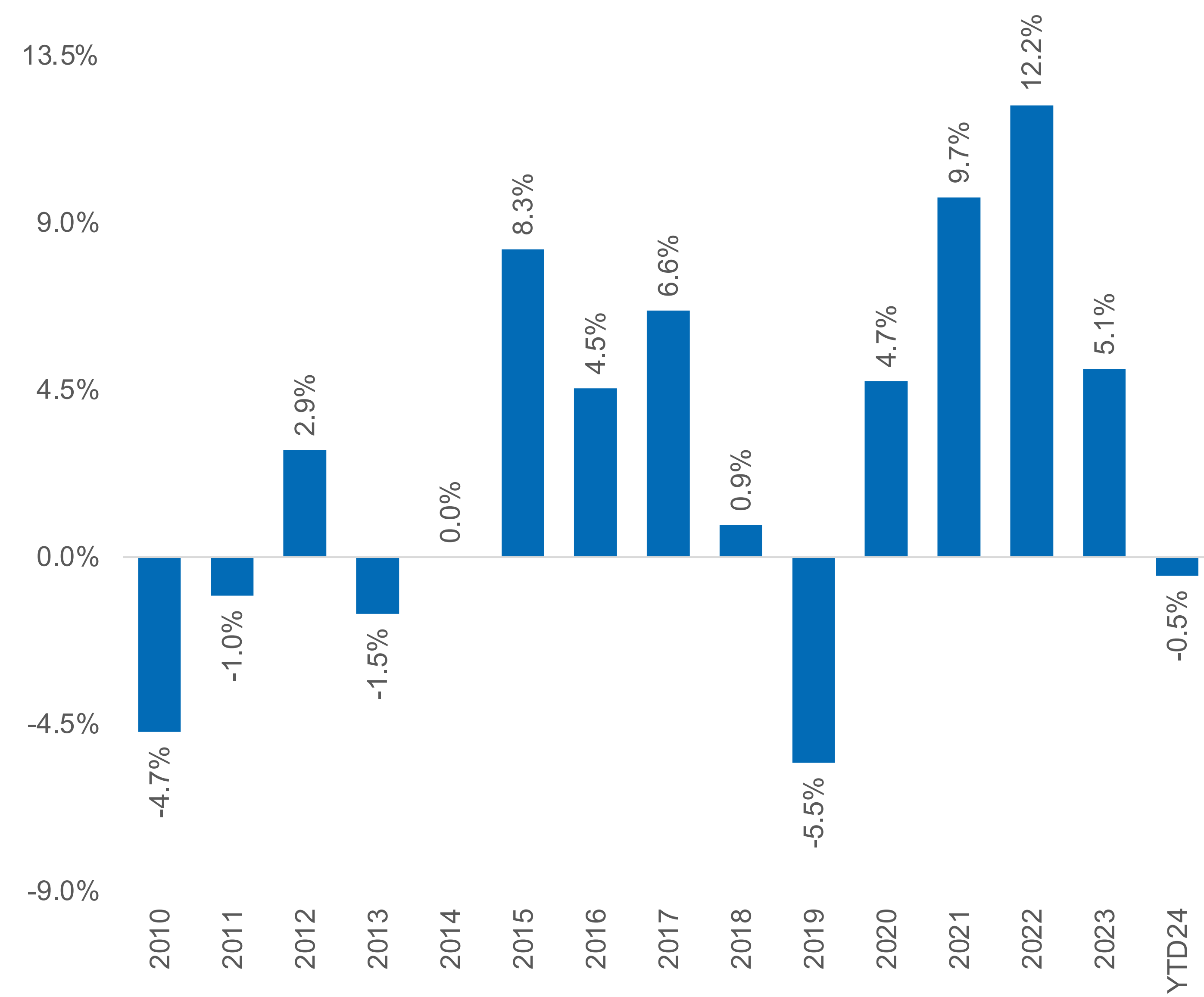
Record-Setting Industrial Asking Rent Growth Slows Pace in 1Q24

Industrial average asking rents increased by a record 32.3% since the first quarter of 2020. Expect higher-priced quality space coming online, along with landlord concessions, including up-front rent abatement to help maintain decent asking rent growth; however, overall rent growth 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

Class A Bulk Warehouse Rents Stabilize in 1Q24

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Notable 1Q24 Lease Transactions

The market slowed during the first quarter of 2024, as the pace of leasing activity decreased. Expect the North County, Metro East and St. Charles County submarkets to lead the local market in leasing activity for the next four quarters. Net absorption totaled 6.0 million SF in North County, 4.5 million SF in Metro East and 3.3 million SF in St. Charles County during the past four years, due to robust leasing activity and competitive rental rates.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
World Wide Technology, Inc.	2801 Westway Drive	Metro East	Direct New	455,900
WWT signed a lease for the entire 455,900-SF, Gateway Panattoni Building II located within Gateway Commerce Center. The building delivered to the market in February 2023 and offers a 10-year property tax abatement. The 455,900-SF space was offered at an asking rental rate of $4.65/SF.				
Allstates WorldCargo, Inc.	422 Hazelwood Logistics Center Drive	North County	Sublease	150,390
Allstates WorldCargo announced in February it subleased 150,390 SF within the 421,800-SF, multi-tenant facility at 422 Hazelwood Logistics Center Dr. The sublease is for a three-year term. The space was offered at an asking rate of $5.50/SF.				
Marson Foods	1590 Tradeport Drive	North County	Direct New	150,000
Marson Foods announced it officially opened its $35.0-million baking facility at 1590 Tradeport Dr. in the Hazelwood Trade Port development. The firm signed a lease with NorthPoint Development for 150,000 SF.				
ASMI Surfaces	737 River Valley Drive	West County	Direct New	99,800
ASMI Surfaces, a distributor for countertop slabs, floor & wall tiles and other surface materials, signed a 99,800-SF lease in the 256,020-SF multi-tenant property.				
Duraflex	157 Compass Point Drive	St. Charles County	Direct New	24,900
Duraflex announced it signed a 24,900-SF lease at the 57,800-SF, multi-tenant facility at 157 Compass Point Dr. The space was offered at an asking rate of $5.75/SF.				

Source: Newmark Research

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Submarket Statistics

Submarket Statistics: All Classes, Warehouse, Flex - (Pages 1-3)

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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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