
2Q23

St. Louis Industrial Market Overview



Market Observations

Economy

- The region’s labor market remained historically strong amid shifting macroeconomic conditions. May’s 2.7% unemployment rate was significantly lower than the 4.6% 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 2.3%, and trade/transportation/utilities, by 0.2%. The construction industry registered negative 6.8%.

Major Transactions

- Sam’s Club will move into the recently completed Inner Park Building B in Edwardsville, Illinois, signing a lease for 370,500 SF. The firm will move in by October 1, 2023. Sam’s Club will take advantage of the 10-year real estate tax abatement on the property.
- Nike renewed its lease for 247,000 SF at the Wentzville Distribution Center. The firm originally signed a five-year lease for the same amount of space in June 2018.
- Fletcher-Reinhardt Service Company will occupy the entire 184,800-SF climate-controlled facility at 6 Konzen Ct. in Granite City, Illinois.

Leasing Market Fundamentals

- Absorption in the second quarter of 2023 totaled 1.3 million SF. This was a decent turnaround after a slow start to the year as the market realized negative 204,927 SF of absorption during the first quarter of 2023. Total net absorption during the past four quarters totaled 3.6 million SF, equating to a decrease of 34.9% compared with the average annual absorption during the pandemic period.
- The 2.8-million-SF construction pipeline trended upward from the first quarter of 2023 and is expected to accelerate towards 4.0 million SF throughout 2023 and 2024.
- Vacancy and rents both increased year-over-year. Vacancy grew to 4.6% as deliveries outpaced absorption. Higher-priced space delivered to the market and demand drove strong yet decelerating 12-month rent growth of 14.1%.

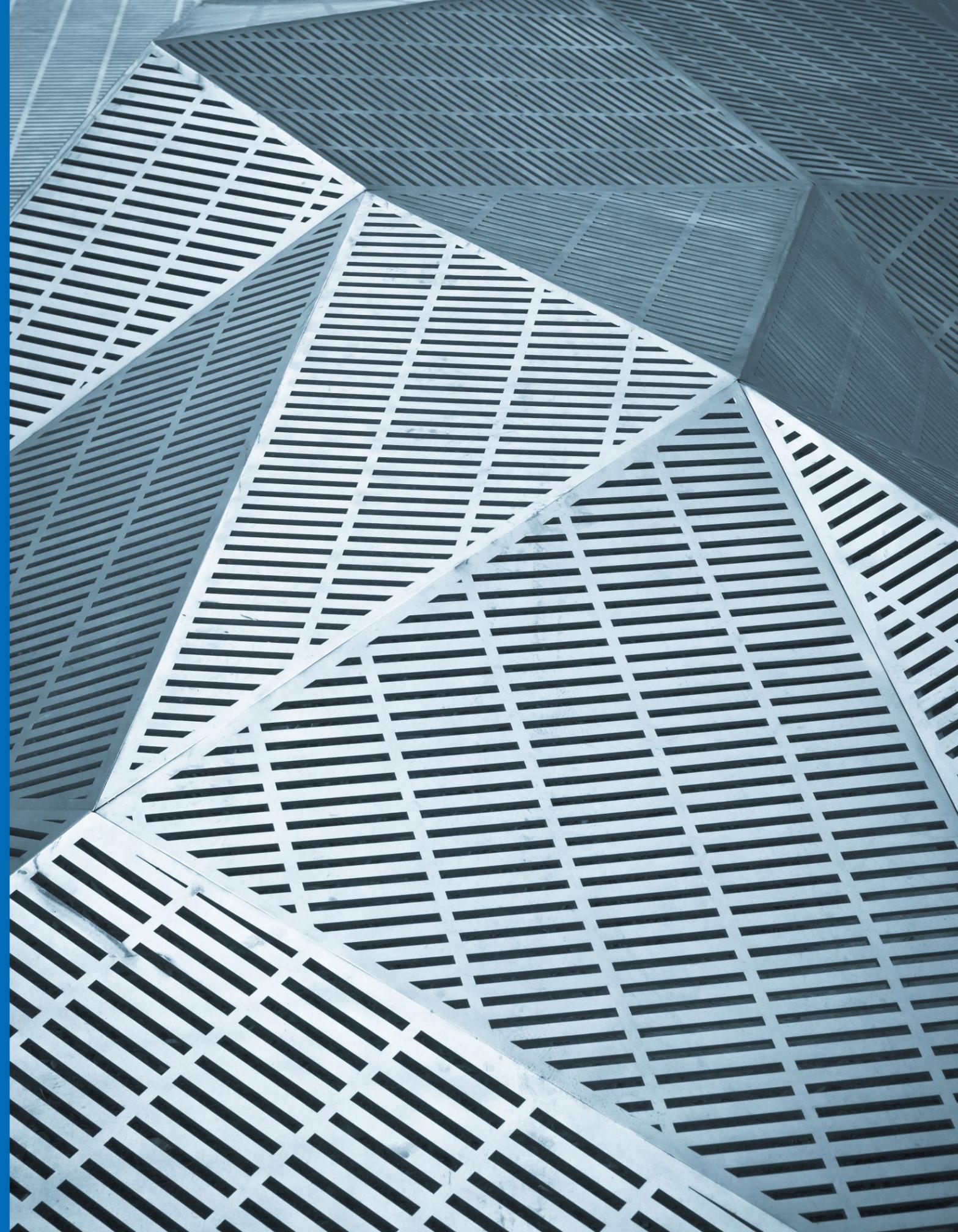
Outlook

- 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, extremely aggressive through 2021 and 2022, has decelerated and will continue to reduce its pace of growth throughout the next four quarters. However, marquee submarkets with limited offerings will retain prime rent levels.

1. Economy
2. Leasing Market Fundamentals

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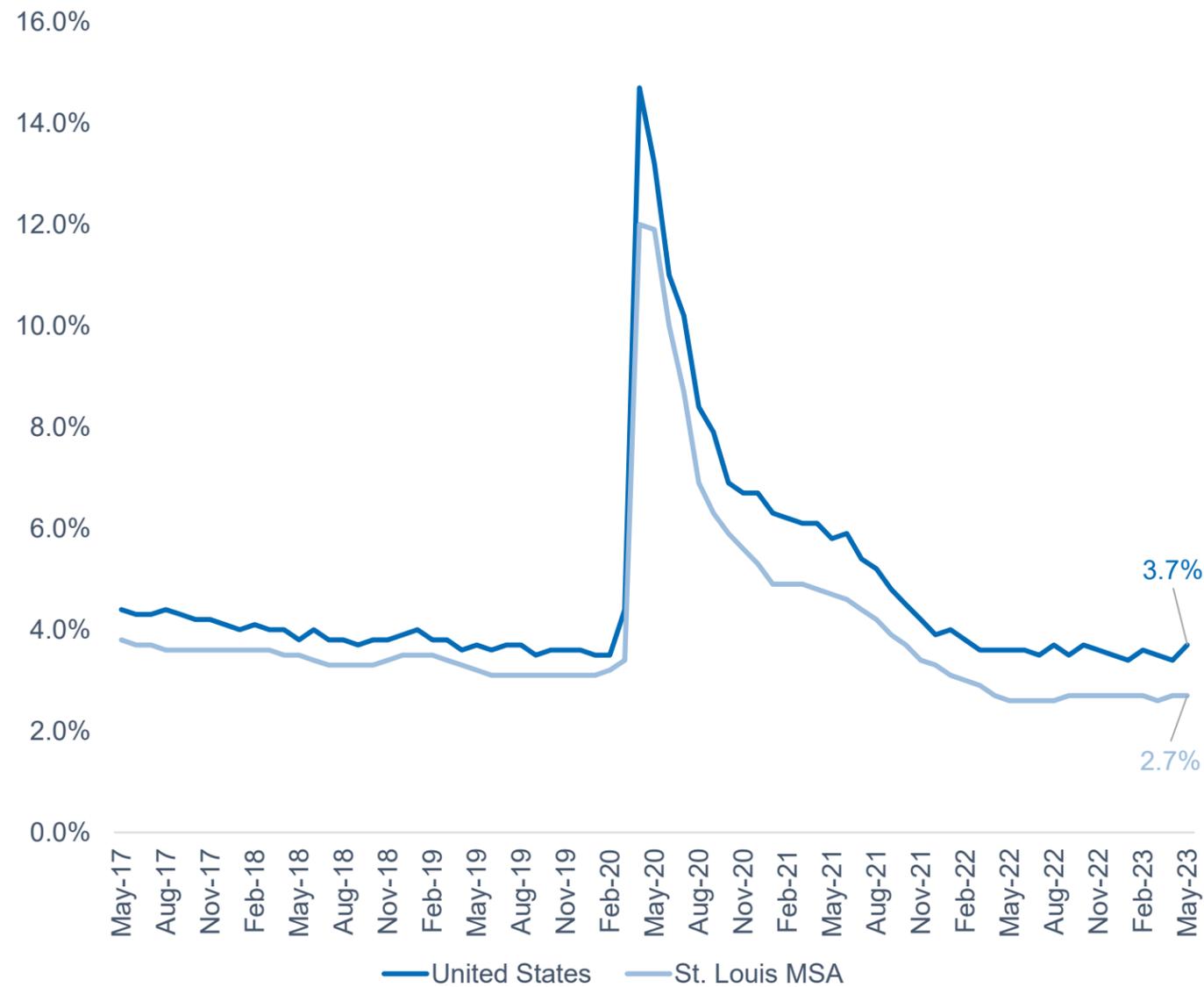
Economy



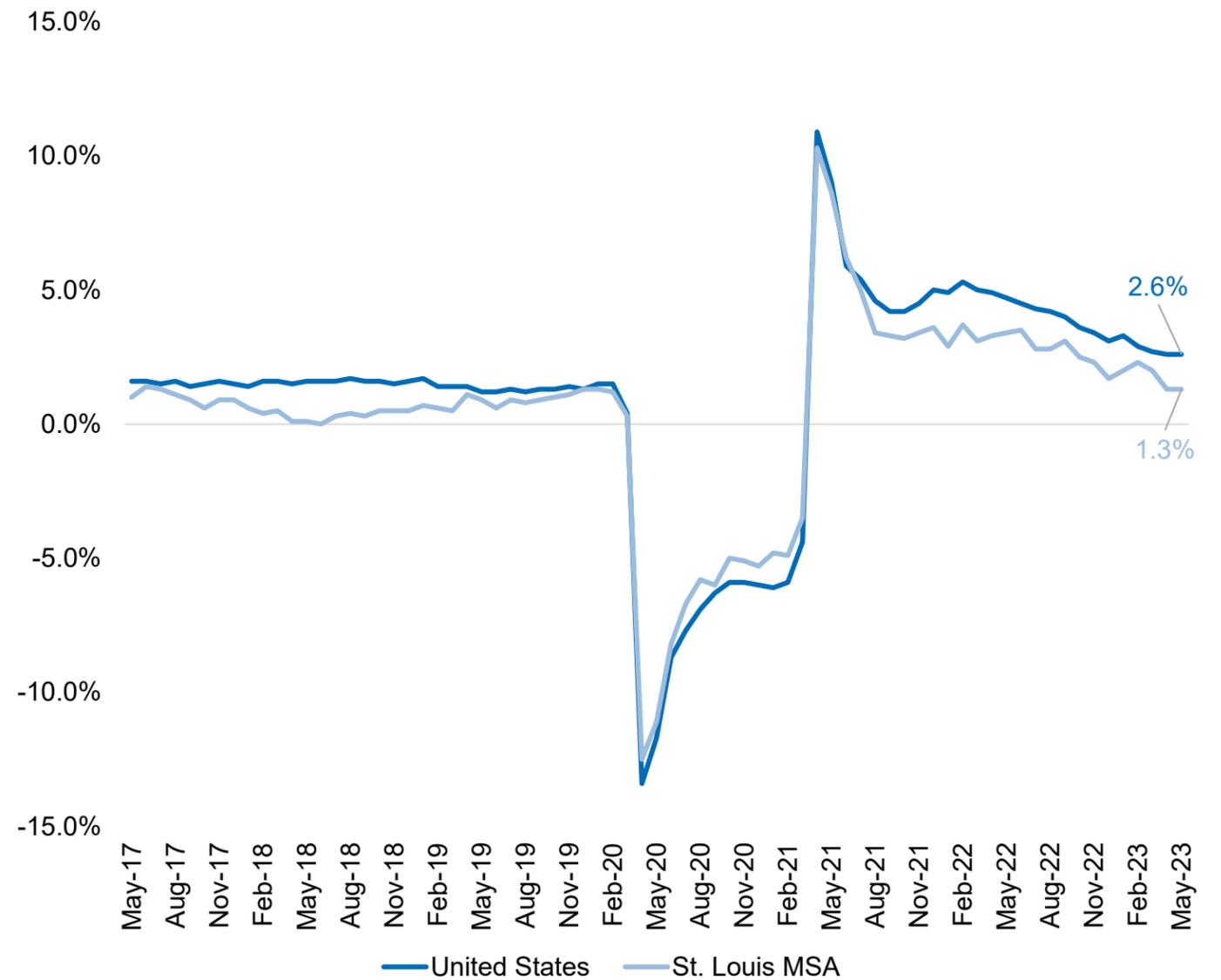
Metro Employment Trends Signal a Slowing Economy

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 100 bps below the national average.

Unemployment Rate, Seasonally Adjusted



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



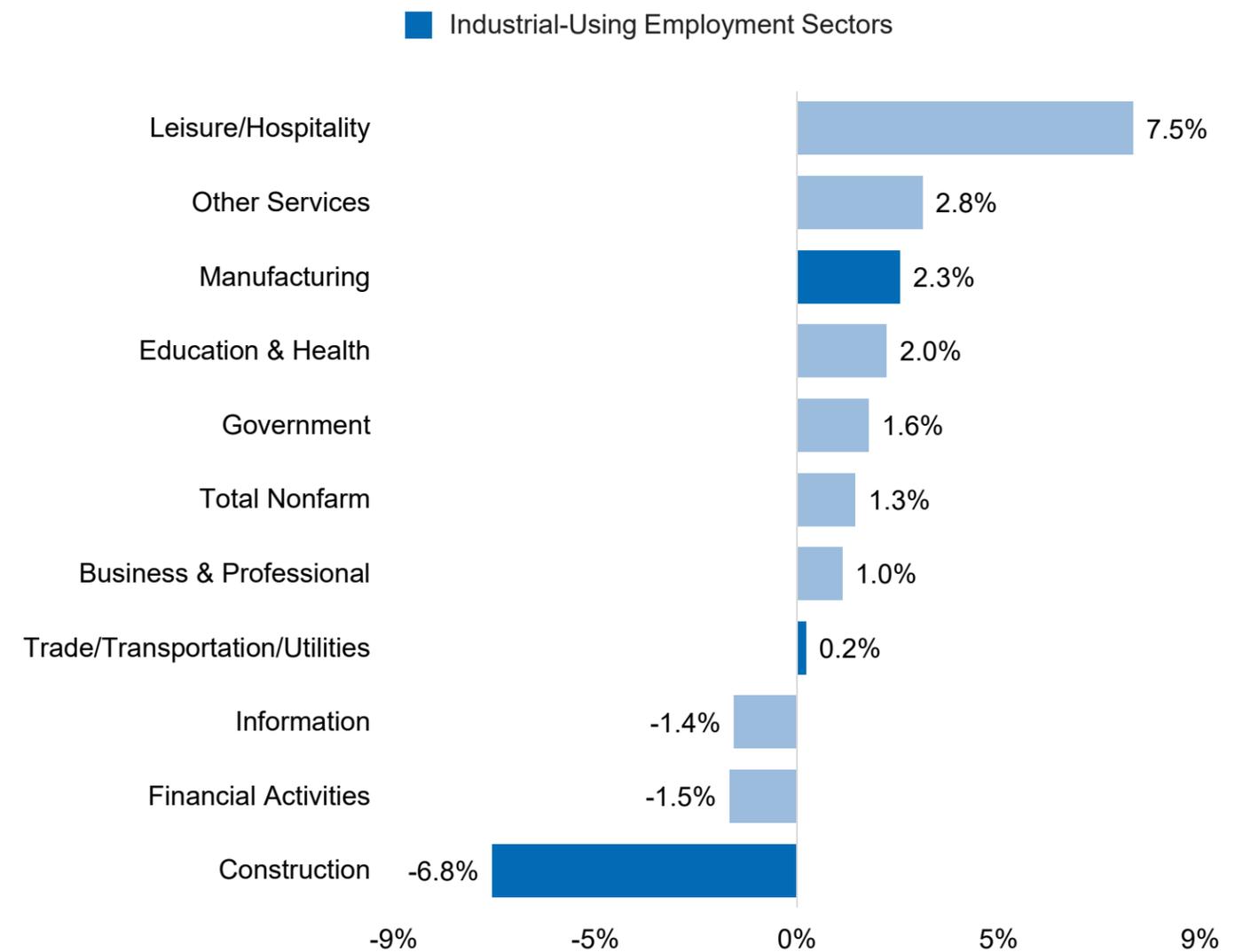
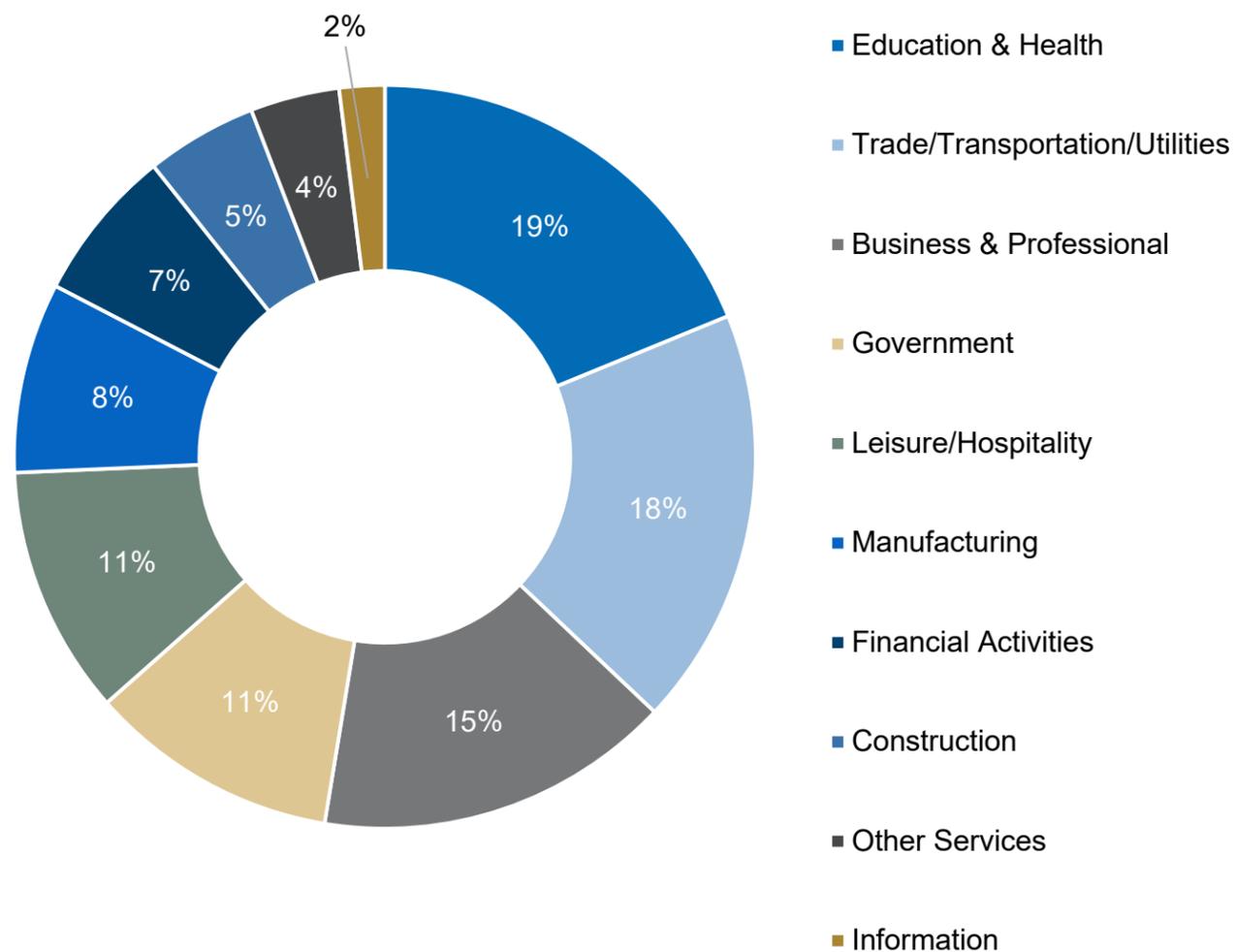
Source: U.S. Bureau of Labor Statistics, St. Louis MSA

Job Growth Driven in Large Part 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 saw annual job gains.

Employment by Industry, May 2023

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

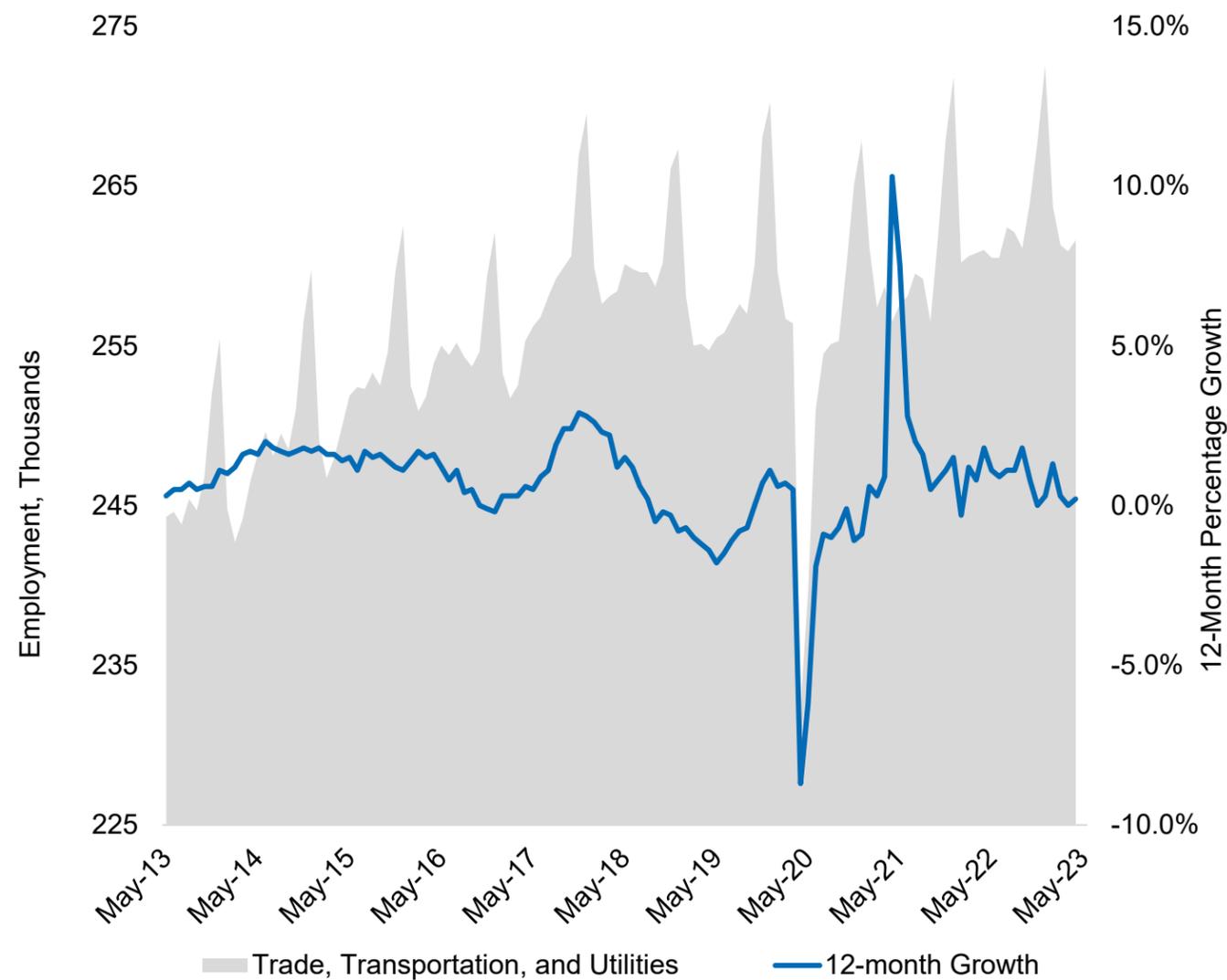


Source: U.S. Bureau of Labor Statistics, St. Louis MSA

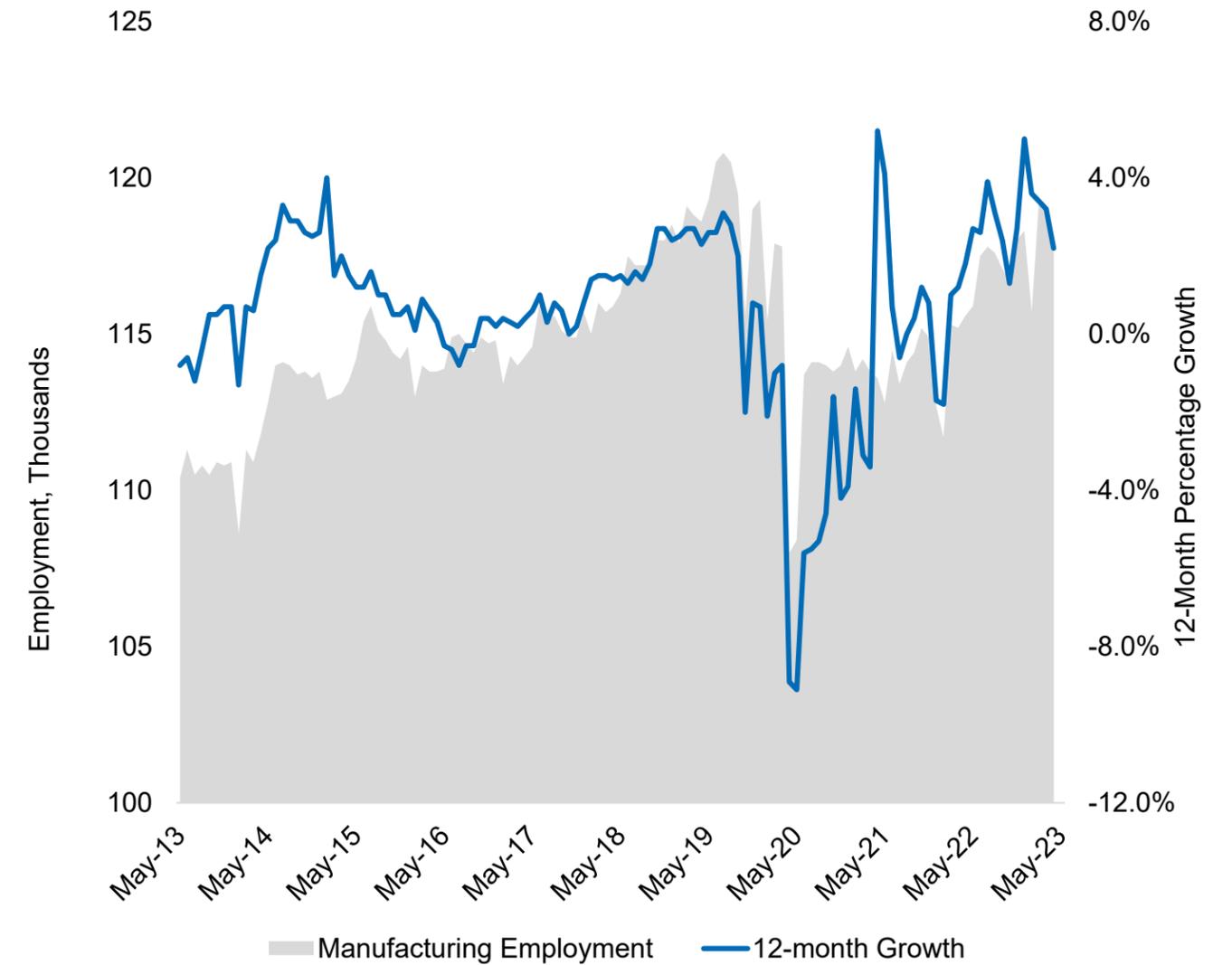
Overall Industrial-Using Employment Has Rebounded

The number of industrial jobs has rebounded to pre-pandemic levels. While there is seasonally a small 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



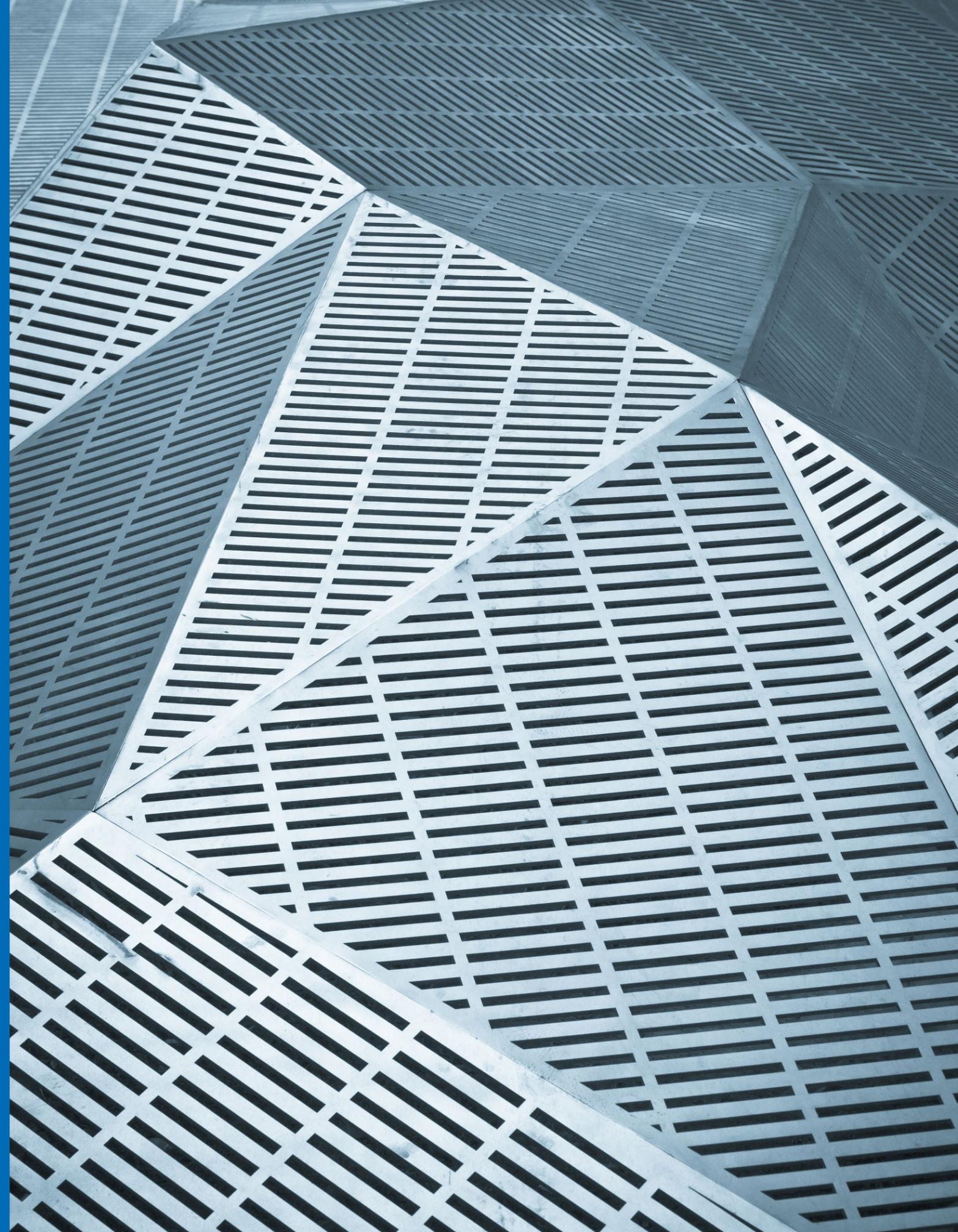
Total Employment and 12-Month Growth Rate, Manufacturing



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

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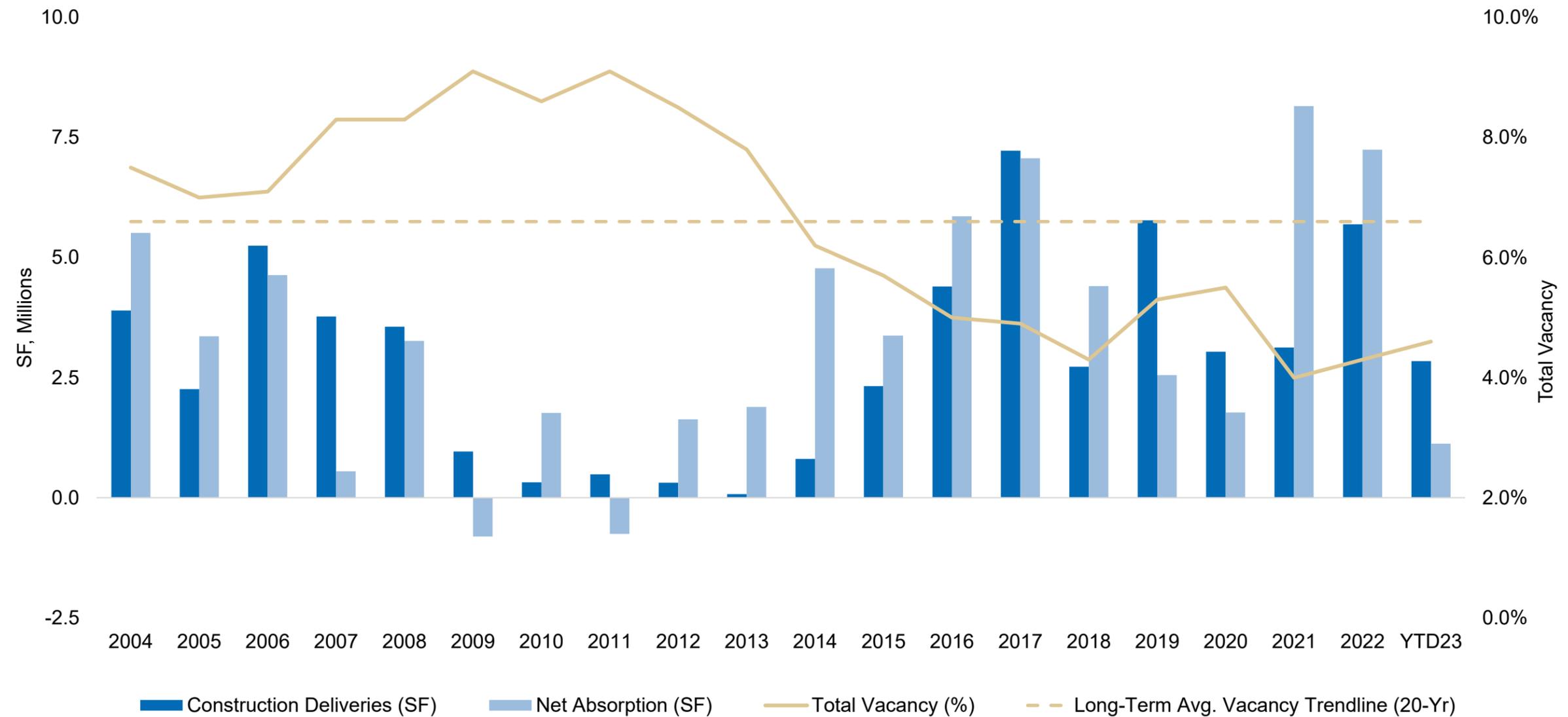
Leasing Market Fundamentals



Vacancy Rises as Construction Deliveries Outpace Net Absorption in 2023

Vacancy increased 1.8% (180 bps) to 4.6% 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.

Historical Construction Deliveries, Net Absorption, and Vacancy

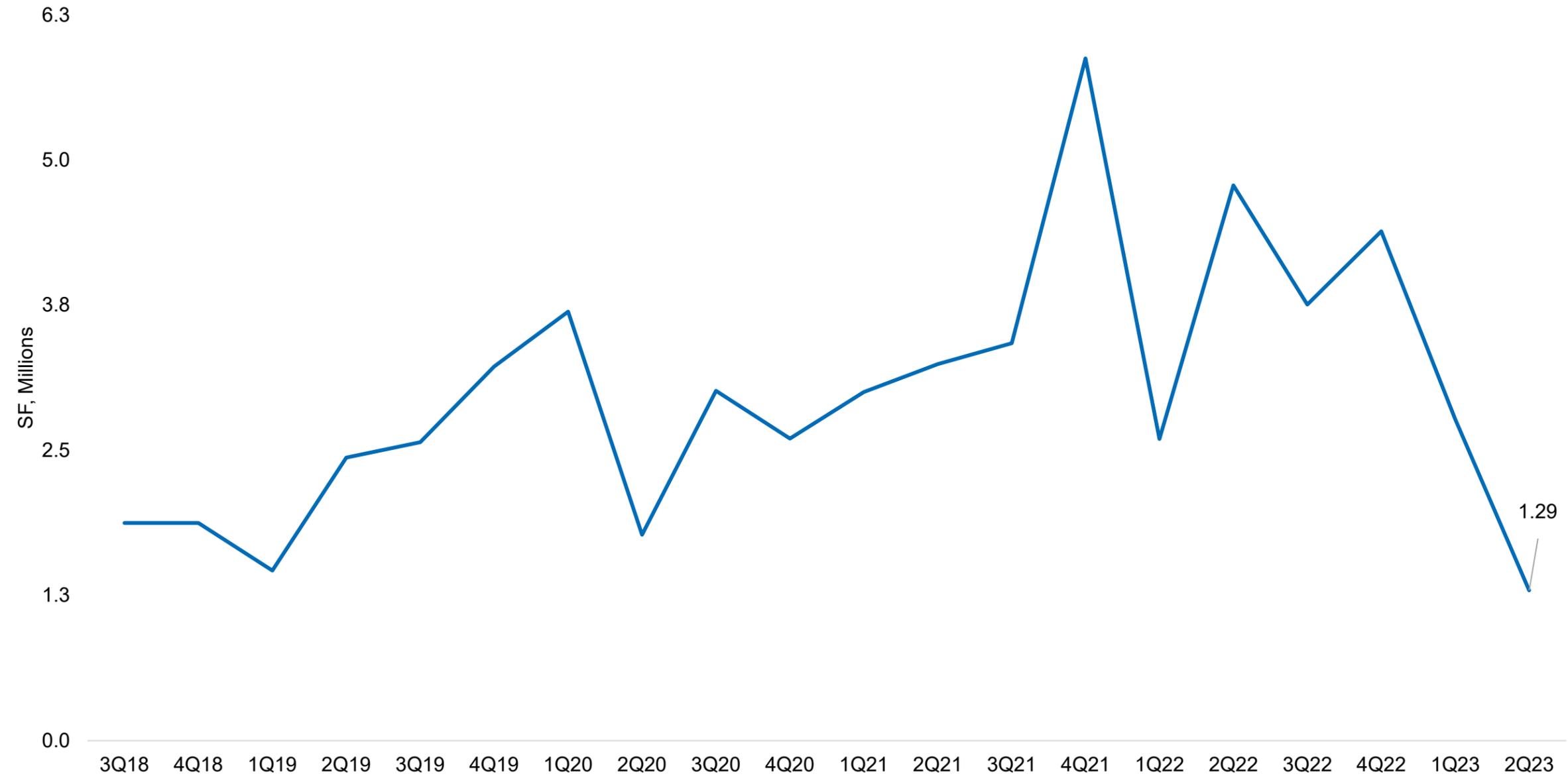


Source: Newmark Research

Industrial Leasing Activity Decelerates to Pre-Pandemic Measures

In the second quarter of 2023, demand for industrial space decelerated to 1.3 million SF. Leasing activity during the second quarter of 2023 registered a new low compared with the past five years. Volume during the first half of the year in 2023 is also down 34.2% compared with the historical average.

Total Leasing Activity (SF)

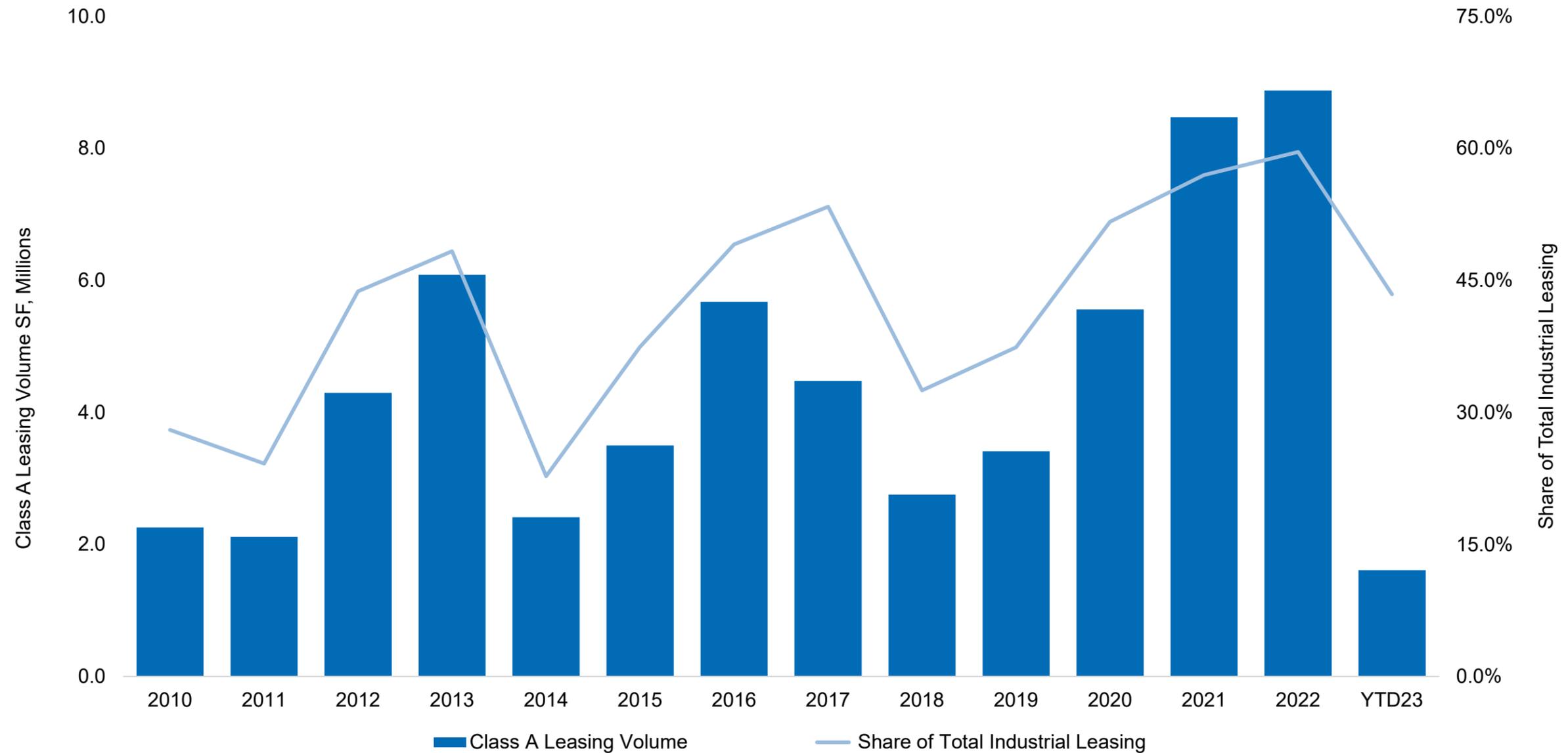


Source: Newmark Research, CoStar

Class A Warehouse Leasing Above Long-Term 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 43.4% of overall activity in the first half of 2023, down from a recent high of 59.6% but above the pre-pandemic average of 37.7%.

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

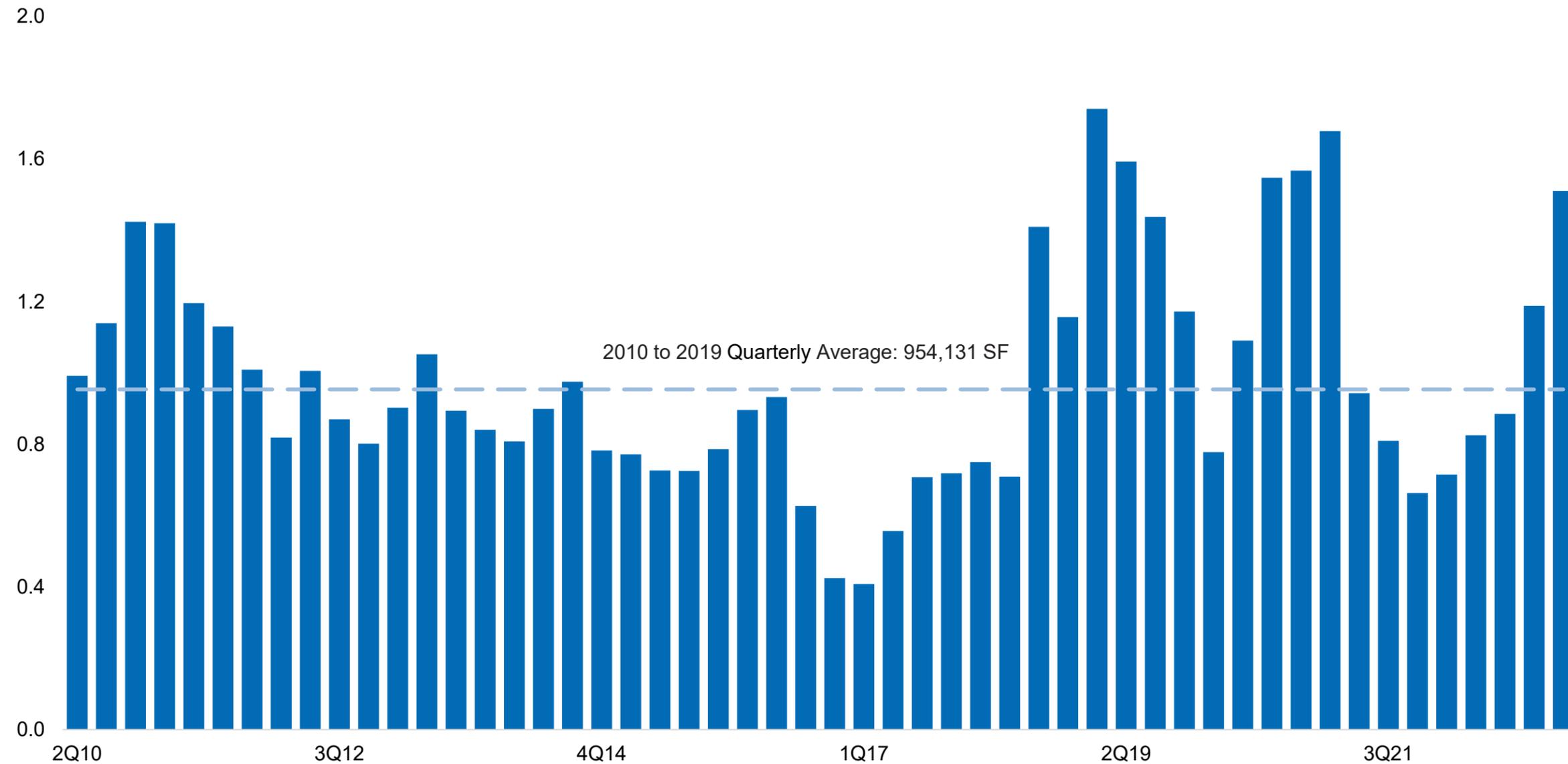


Source: Newmark Research, CoStar

Industrial Sublease Availability Spikes Above Pre-Pandemic Levels

Sublease volume in the second quarter of 2023 was on par with volume charted during the height of the pandemic and significantly above the long-term pre-pandemic average of 954,131 SF. The rate at which subleases were added to the market has accelerated over the past five quarters. Rising interest rates, an inflationary environment and declining consumer demand are driving some firms to control costs via supply chain optimization and consolidation, which includes putting excess or underutilized space up for sublease.

Available Industrial Sublease Volume (MSF)

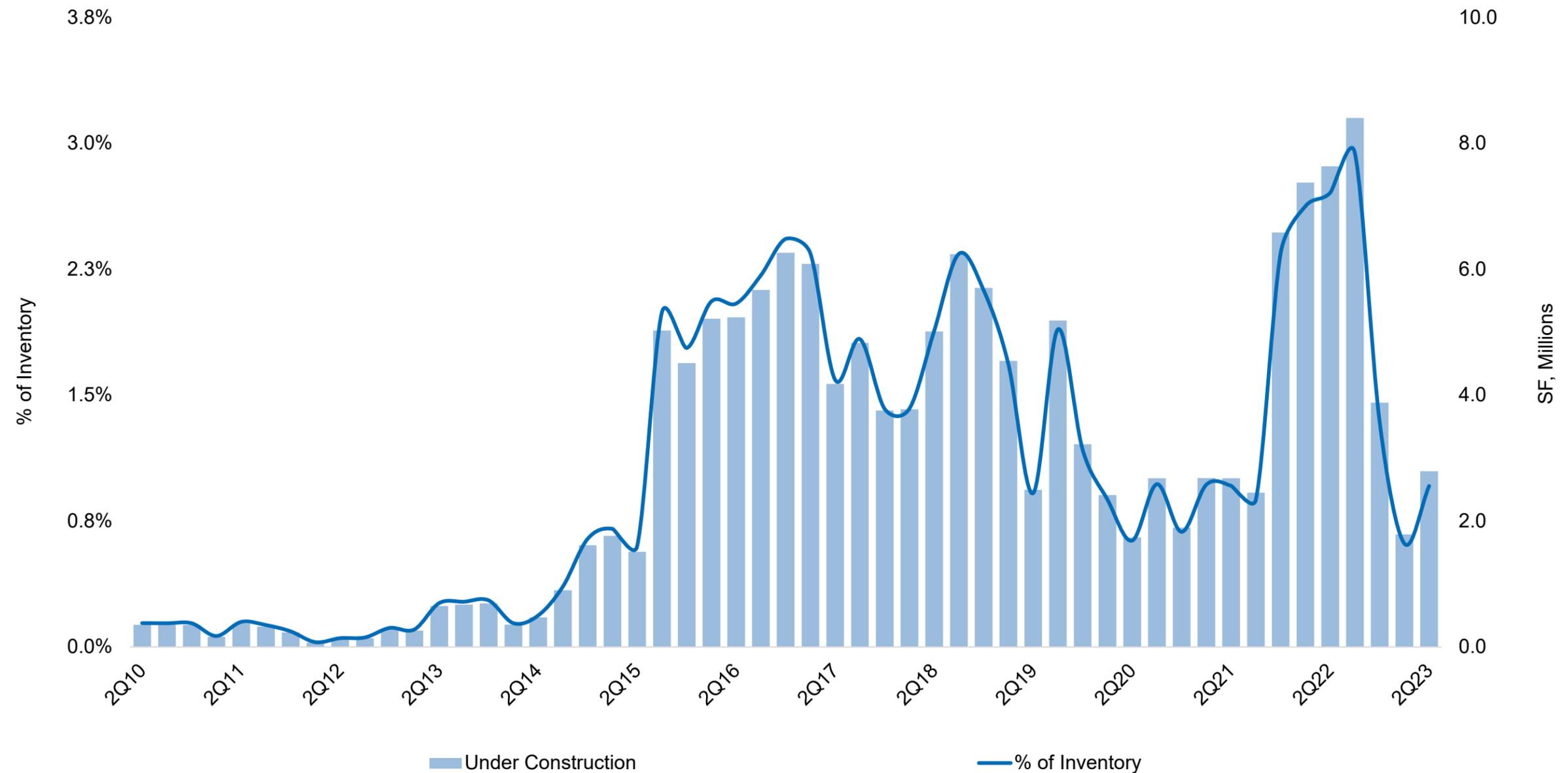


Source: Newmark Research, CoStar

Industrial Supply Pipeline Eases as Construction Starts to Dwindle

The construction pipeline has trended significantly 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 4.0 million SF throughout 2023 and 2024; 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.

Industrial Under Construction and % of Inventory

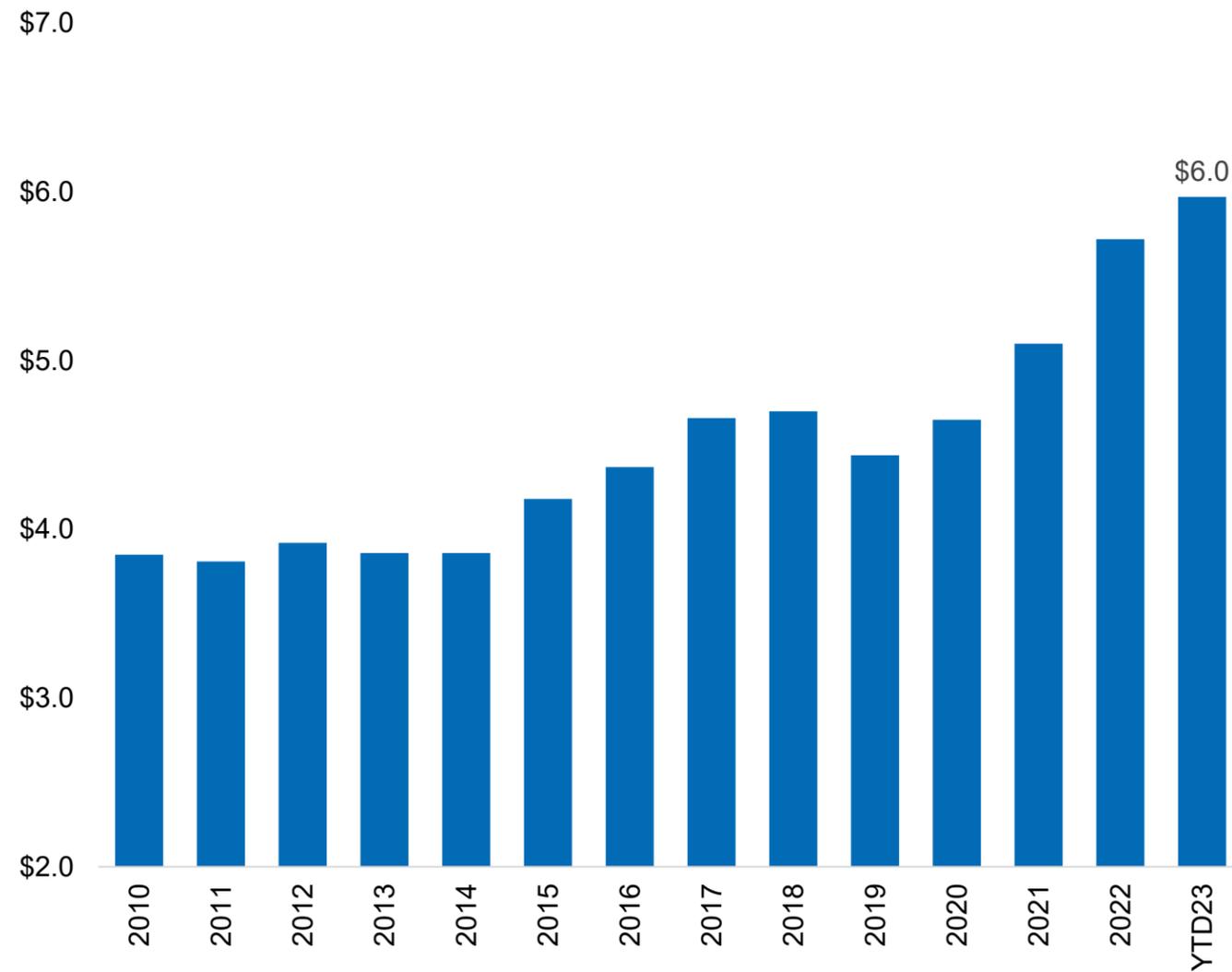


Source: Newmark Research, CoStar

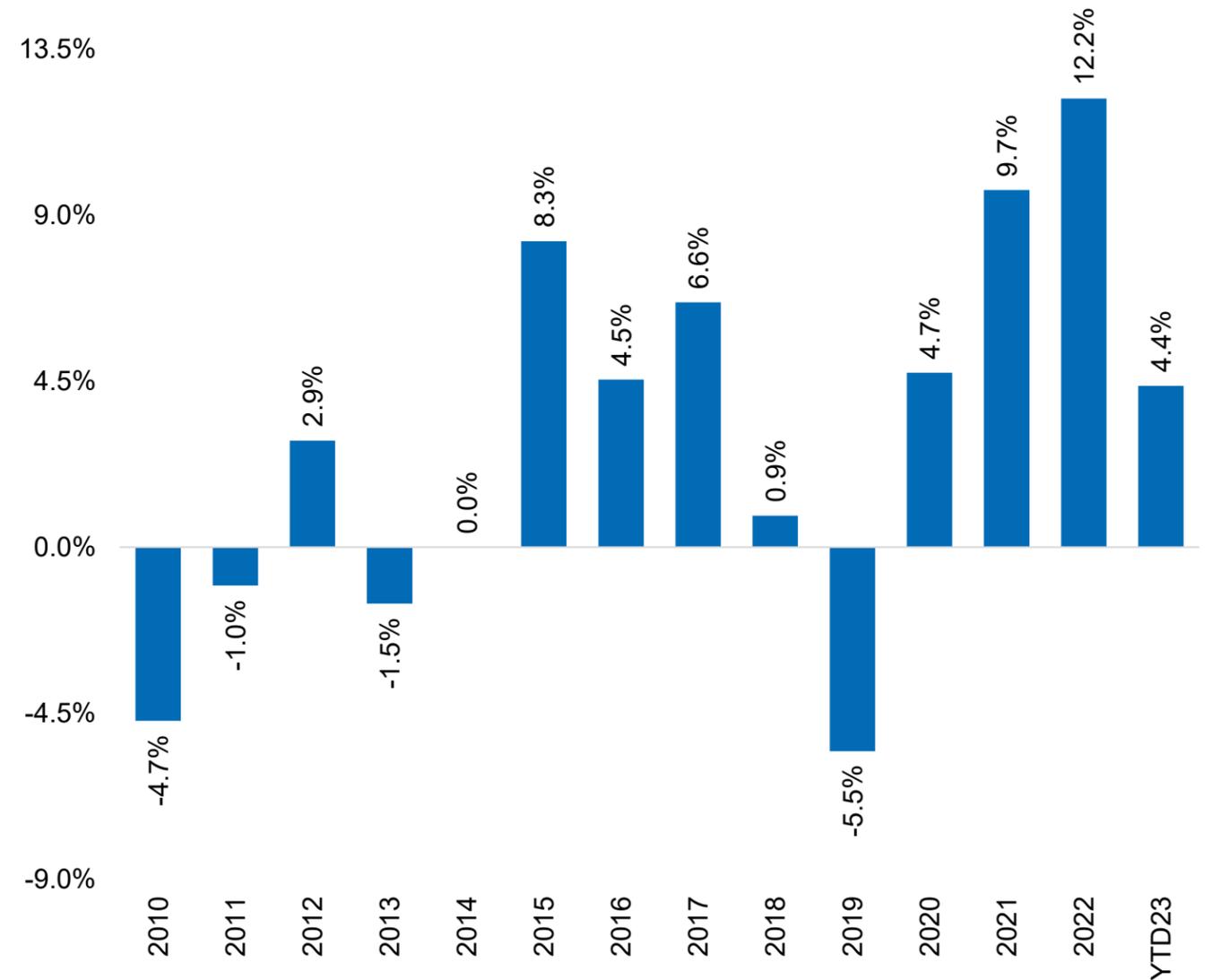
Record-Pace Industrial Asking Rent Growth Continues into the Second Quarter of 2023

Industrial average asking rents increased by a record 34.5% during the past 14 quarters. Rent growth is expected to moderate throughout the remainder of 2023. Expect higher-priced quality space coming online and landlord concessions to help maintain decent asking rent growth.

Industrial Average Asking Rent, \$/SF, NNN



Year-Over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Notable 2Q23 Lease Transactions

The market tightened during the second quarter of 2023 but displayed a reduced pace of leasing activity, especially for bulk warehouse properties above 100,000 SF in size. Expect the Metro East, North County and St. Charles County submarkets to lead the local market for the next four quarters. Net absorption totaled 4.1 million SF in North County, 3.4 million SF in Metro East and 1.4 million SF in St. Charles County during the past two years, due to robust leasing activity and competitive rental rates.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Sam's Club	5710 Inner Park Dr.	Metro East	Direct New	370,500
<i>The membership-only warehouse chain will move into the 801,840-SF, Inner Park Building B of the Gateway Commerce Center development by October 1, 2023. The building delivered to the market in the first quarter of 2023 and included a 10-year real estate tax abatement.</i>				
Nike	1250-1290 Interstate Dr.	St. Charles County	Direct Renewal	247,000
<i>The firm originally signed a five-year lease for the same amount of space in June 2018. The Class B, multi-tenant building totals 420,000 SF and delivered to the market in 1997.</i>				
Fletcher-Reinhardt Service Company	6 Konzen Ct	Metro East	Direct New	184,800
<i>Fletcher-Reinhardt Service Company will occupy the entire climate-controlled food and beverage facility, designed for high volume distribution with 50 dock doors. The property was offering space for lease at an asking rate of \$4.95/SF NNN.</i>				
Iron Mountain	11725-11741 Missouri Bottom Rd.	North County	Direct Renewal	161,440
<i>A global provider of records management, data backup and recovery, document management, secure shredding, and data centers, the firm renewed its lease for the entire Class A building location in the Lambert Corporate Center.</i>				
U.S. Department of Agriculture	7654 Natural Bridge Rd.	Central County	Direct New	68,500
<i>The USDA's new Food Safety and Inspection Service Midwestern Laboratory broke ground in May 2023. The GSA signed a 20-year lease, on behalf of the USDA, for a total contract value of \$115.5 million.</i>				

Source: Newmark Research

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