
3Q24

St. Louis Industrial Market Overview

Market Observations

Economy

- The region’s labor market remains historically strong amid shifting macroeconomic conditions. August’s unemployment rate of 3.9% was 30 basis points lower than the 10-year historical average of 4.2%.
- Year-over-year, job growth has been most pronounced in the services sector, which is still recovering from the pandemic. The Leisure and Hospitality sector, followed by Education and Health, led all industries in job gains over the past 12 months.
- Industrial firms are adjusting their labor needs. Locally, employment in all three industrial-occupying sectors experienced growth during the past year: Manufacturing by 2.0%; Construction, by 1.8%; and Trade/Transportation/Utilities, by 1.1%.

Major Transactions

- The St. Louis-based technology services provider, World Wide Technology, agreed to a five-year lease renewal with Sealy & Company for a total of 1.6 million square feet of space at Lakeview Commerce Center II and III in the Metro East submarket.
- GEODIS renewed its 406,500-SF lease with EQT Exeter at Gateway Commerce Center in Edwardsville, IL.
- Dive Bomb Industries, a sporting goods retailer, will relocate its headquarters from Maryland Heights and expand into 128,000 SF of space at the former St. Louis Mills shopping mall, converted into the current Hazelwood Business Park.

Leasing Market Fundamentals

- Net absorption in the third quarter of 2024 totaled 2.0 MSF, the highest amount since 2Q22. Vacancy decreased driven by positive net absorption in various mid-sized deals and no new deliveries to the market. The lower vacancy rate supports rental rate growth fundamentals and is likely to motivate developers to break ground in 2025.
- The 2.4-MSF construction pipeline has trended downward since its peak in 4Q21 but is expected to accelerate towards 3.0 million SF during the next four quarters.
- Vacancy remained decreased to 4.7% during the quarter and 10 basis points over the past four quarters as absorption outpaced deliveries. Asking rental rate growth for the overall market year-over-year has been nonexistent, totaling negative 3.1%.

Outlook

- Uncertainty persists in the macroeconomic outlook, leading both occupiers and investors to approach deals with increased caution, which will likely impact leasing and investment activity.
- Market vacancy will remain stable over the next two quarters as insignificant speculative deliveries will combine with a reduced pace of 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.
- Rental rates are expected to ease in the coming quarters as a lack of liquidity forces landlords to lower rents rather than provide larger concession packages. Key submarkets with limited offerings will retain prime rent levels.

1. Economy
2. Leasing Market Fundamentals
3. Submarket Statistics

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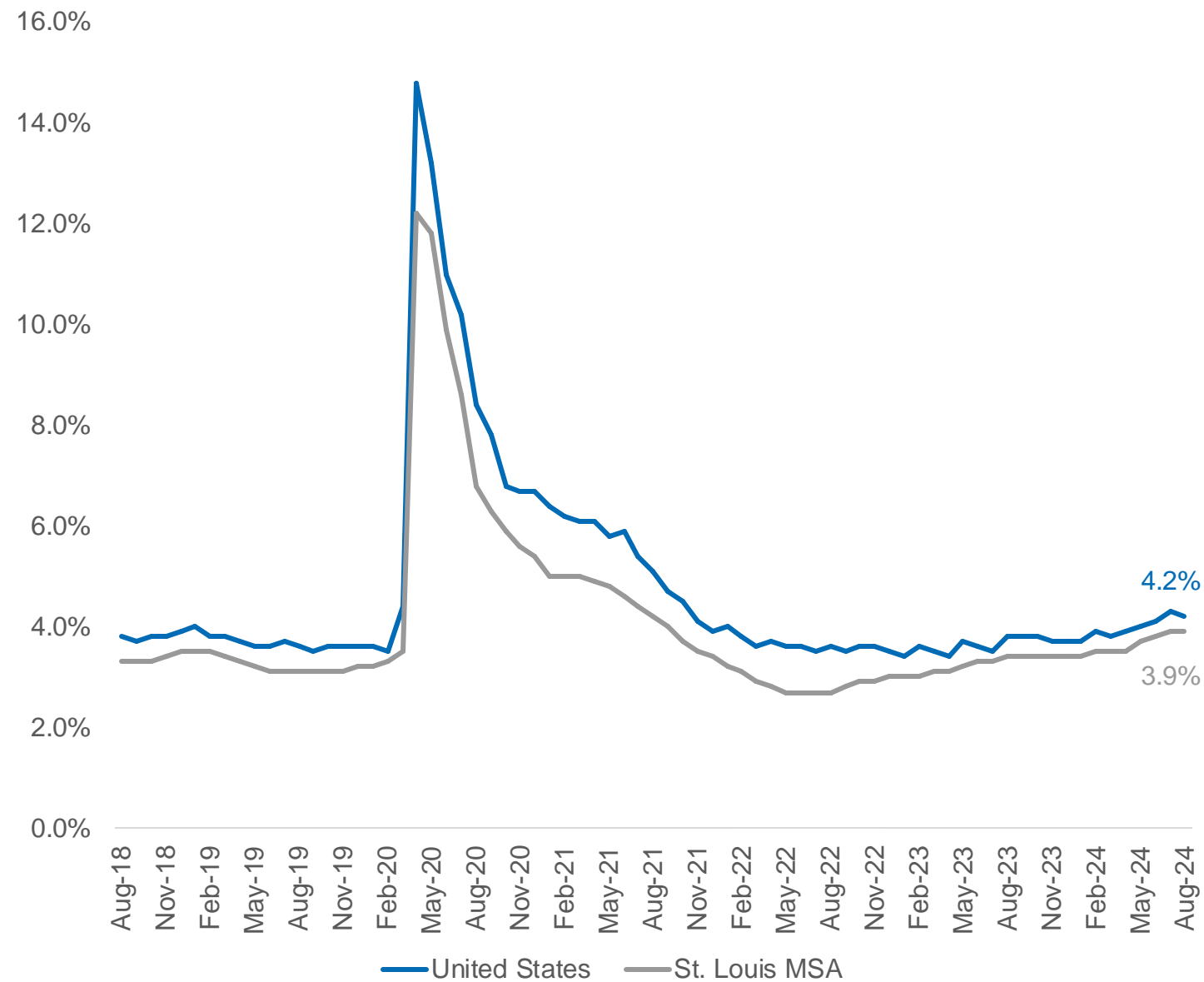
Economy



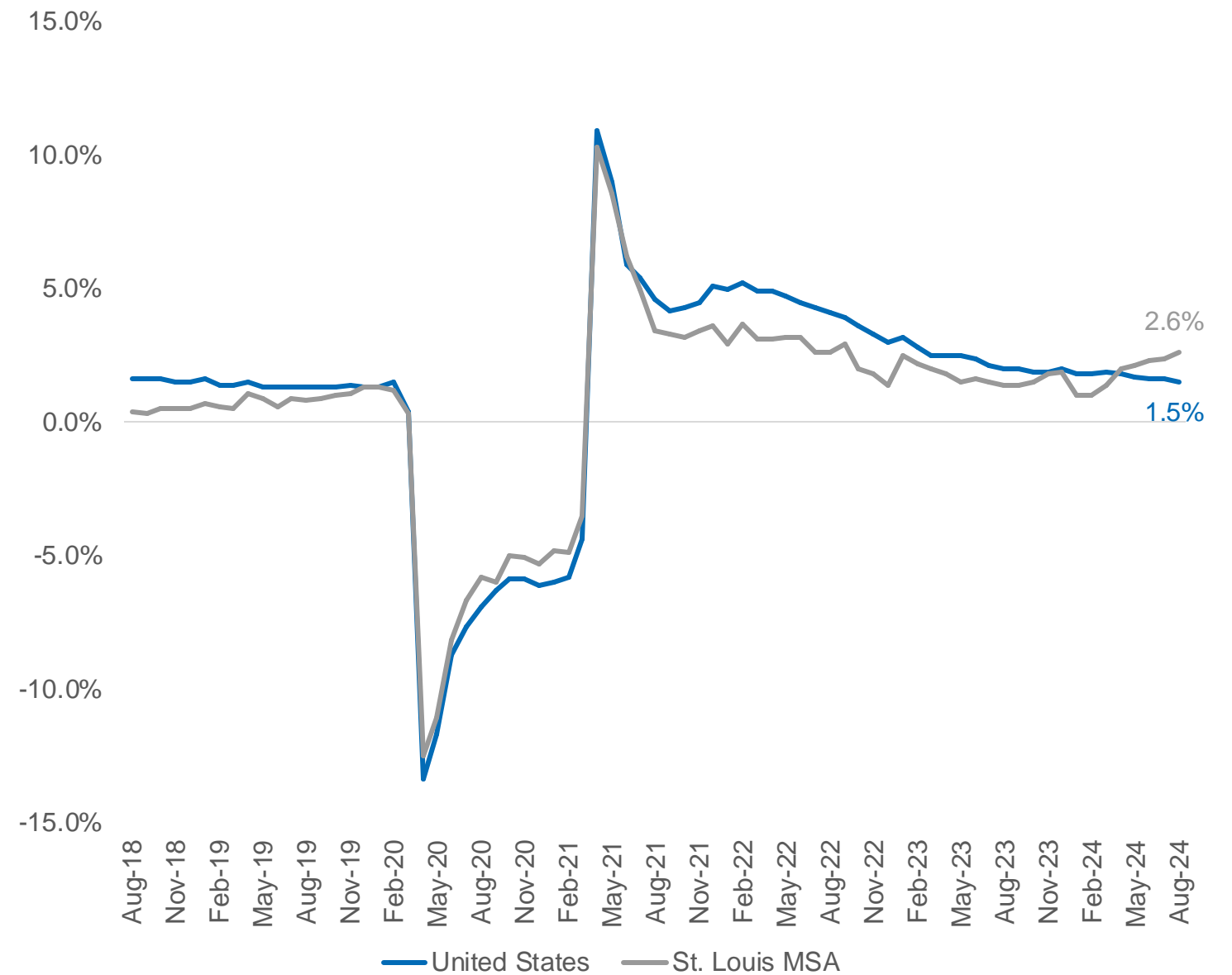
Metro Employment Trends Signal a Stable Economy

The region's labor market remains on relatively solid footing, amid elevated interest rates. Unemployment in the region recovered from the pandemic and remains 30 bps below the national average.

Unemployment Rate, Non-Seasonally Adjusted



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



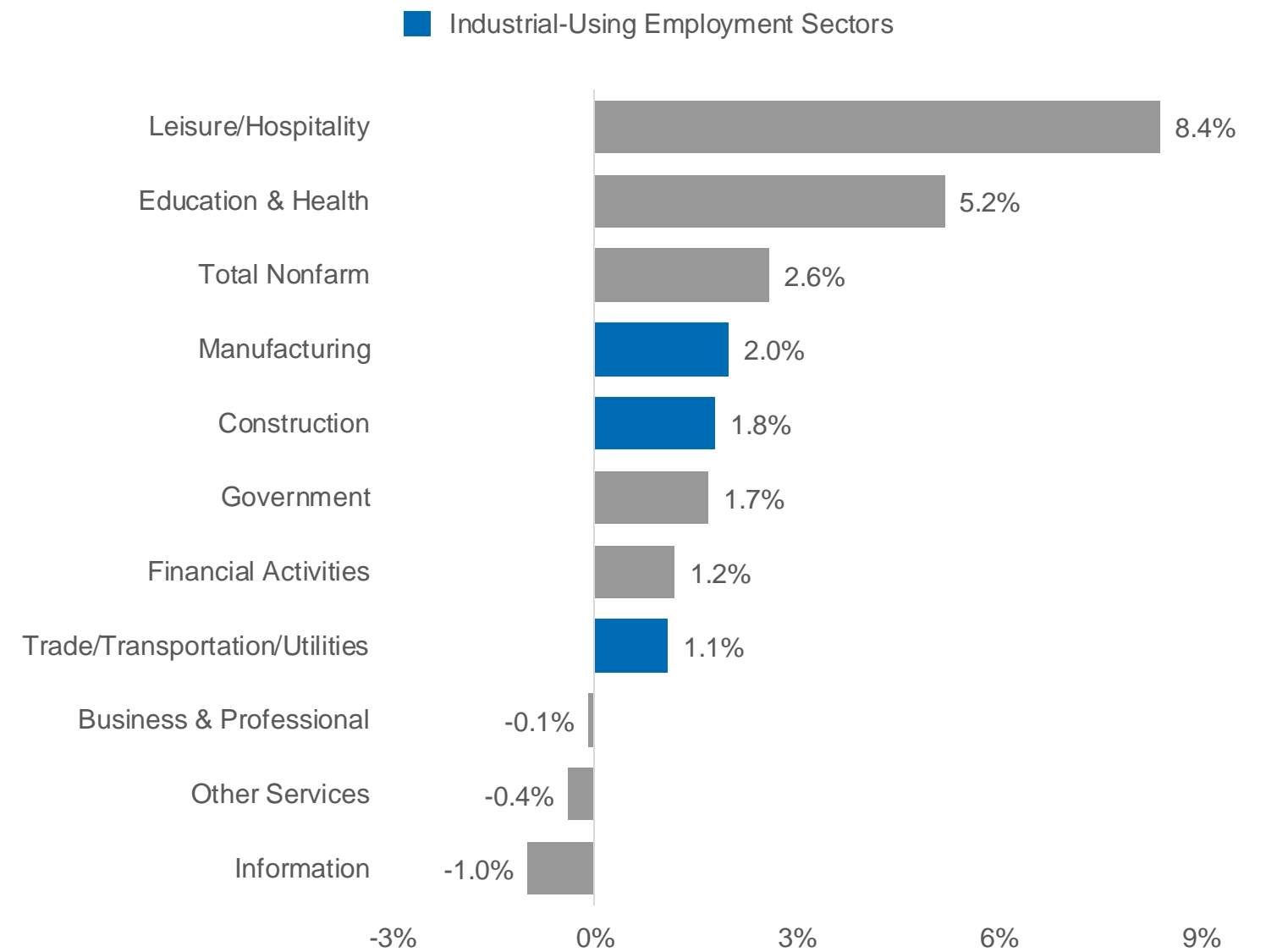
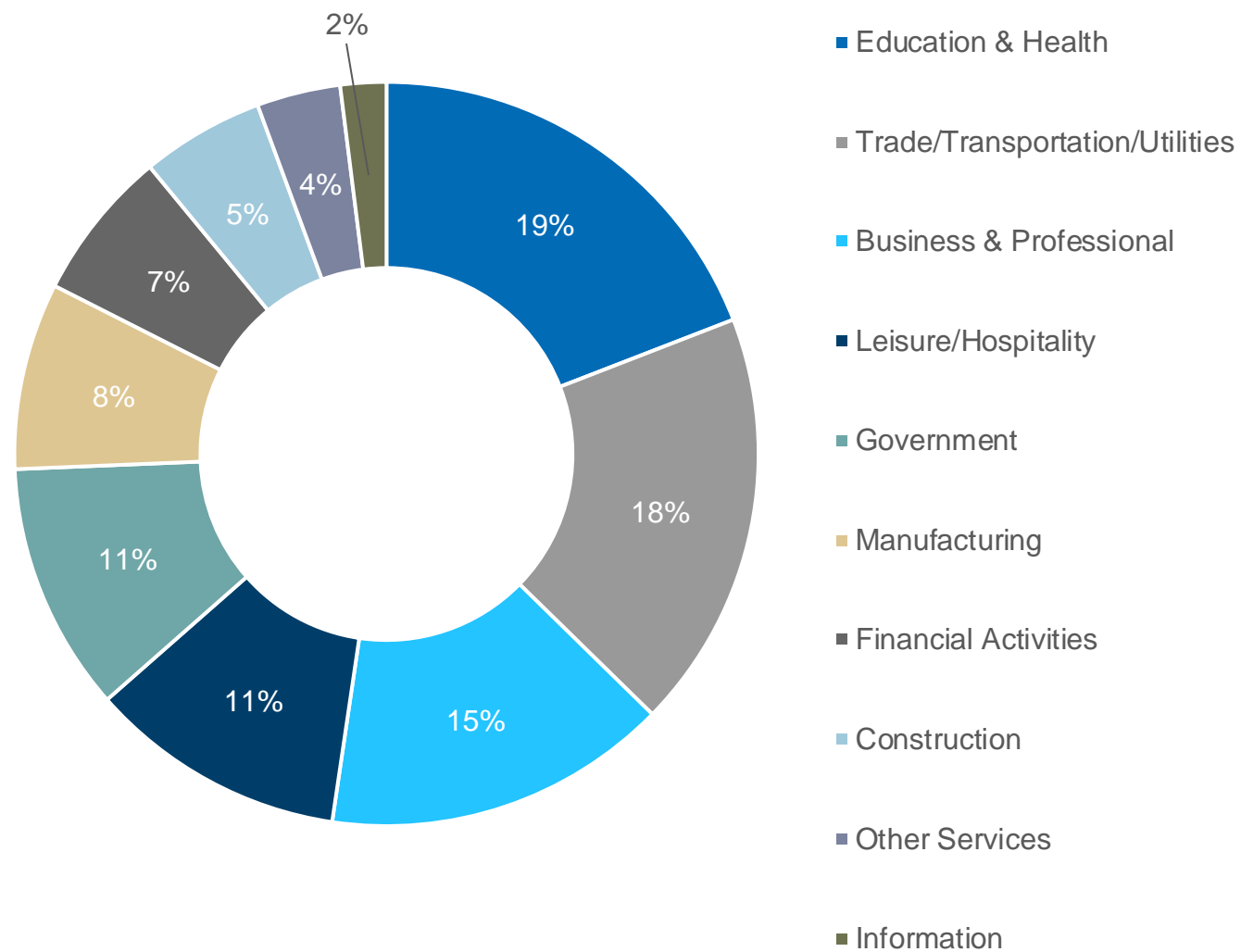
Source: U.S. Bureau of Labor Statistics, St. Louis MSA

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

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

Employment by Industry, August 2024

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

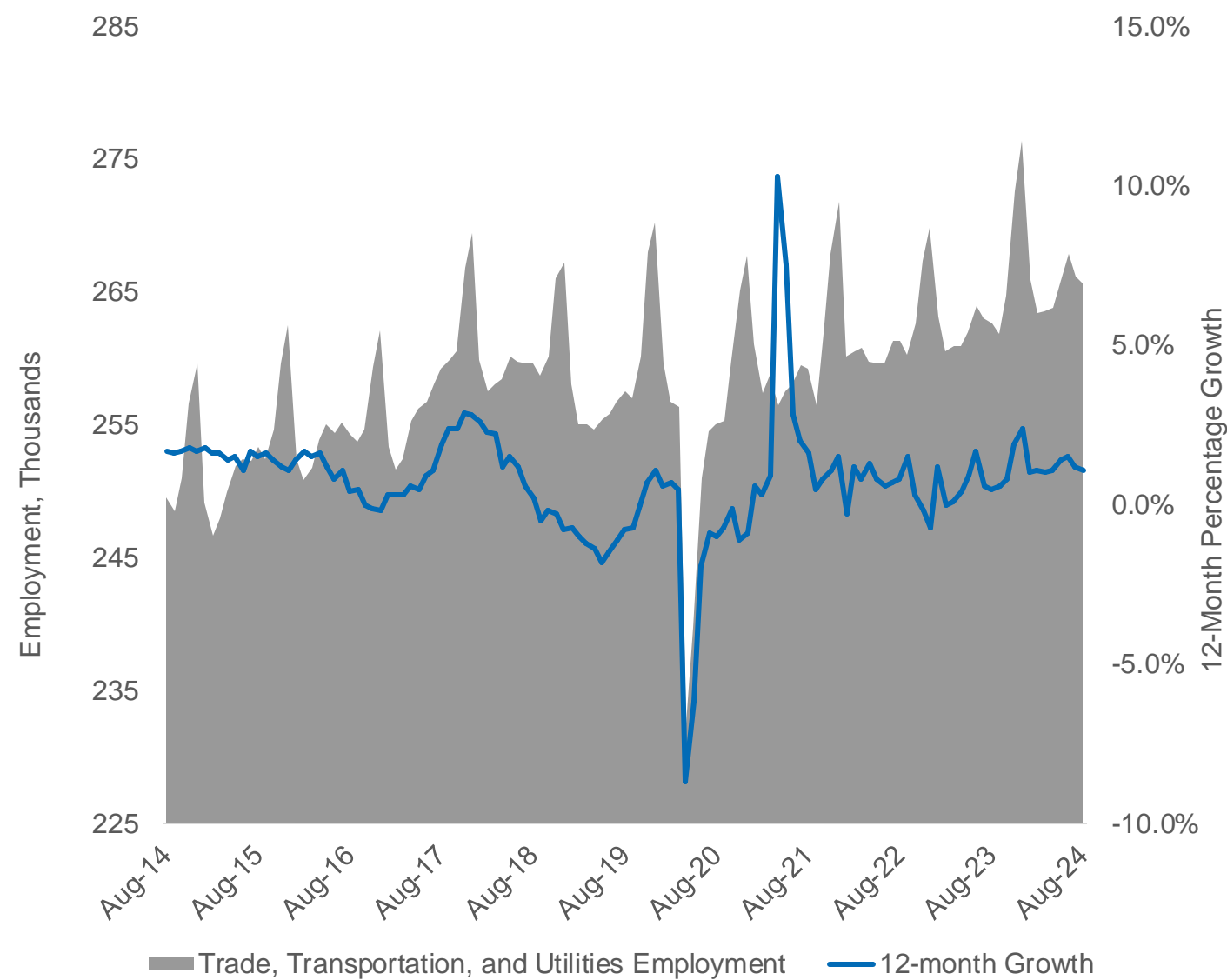


Source: U.S. Bureau of Labor Statistics, St. Louis MSA

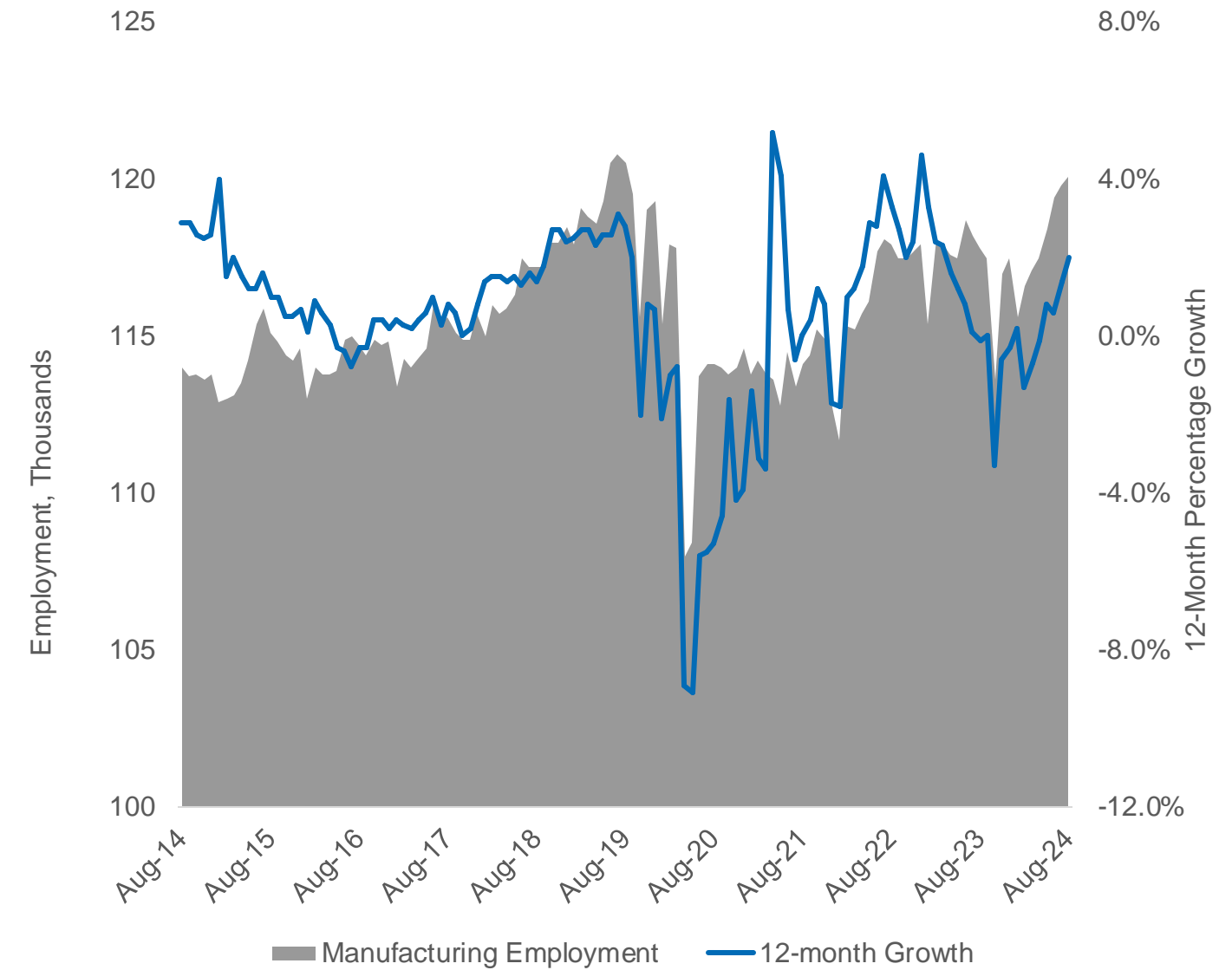
Overall Industrial-Using Employment Has Rebounded

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



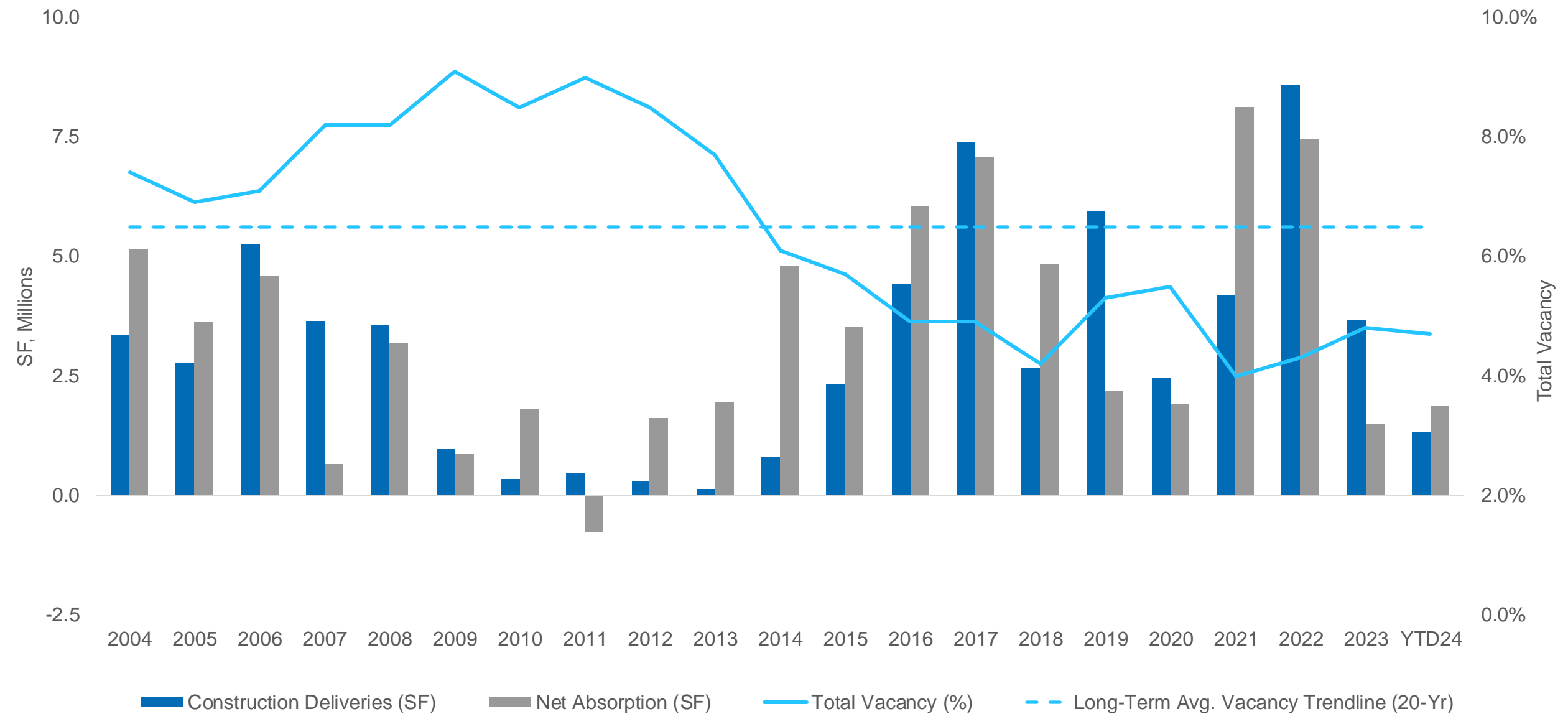
Market Overview

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Vacancy Decreases As Absorption Outpaces Deliveries

Vacancy decreased by 0.1% (10 bps) to 4.7% year over year, as tenants continue to reassess their space requirements. The market has been adjusting, with most new deliveries consisting of build-to-suit projects. Leasing activity over the past four quarters reflects tenant caution, as many are hesitant to commit to substantial leases in the current economic environment.

Historical Construction Deliveries, Net Absorption, and Vacancy

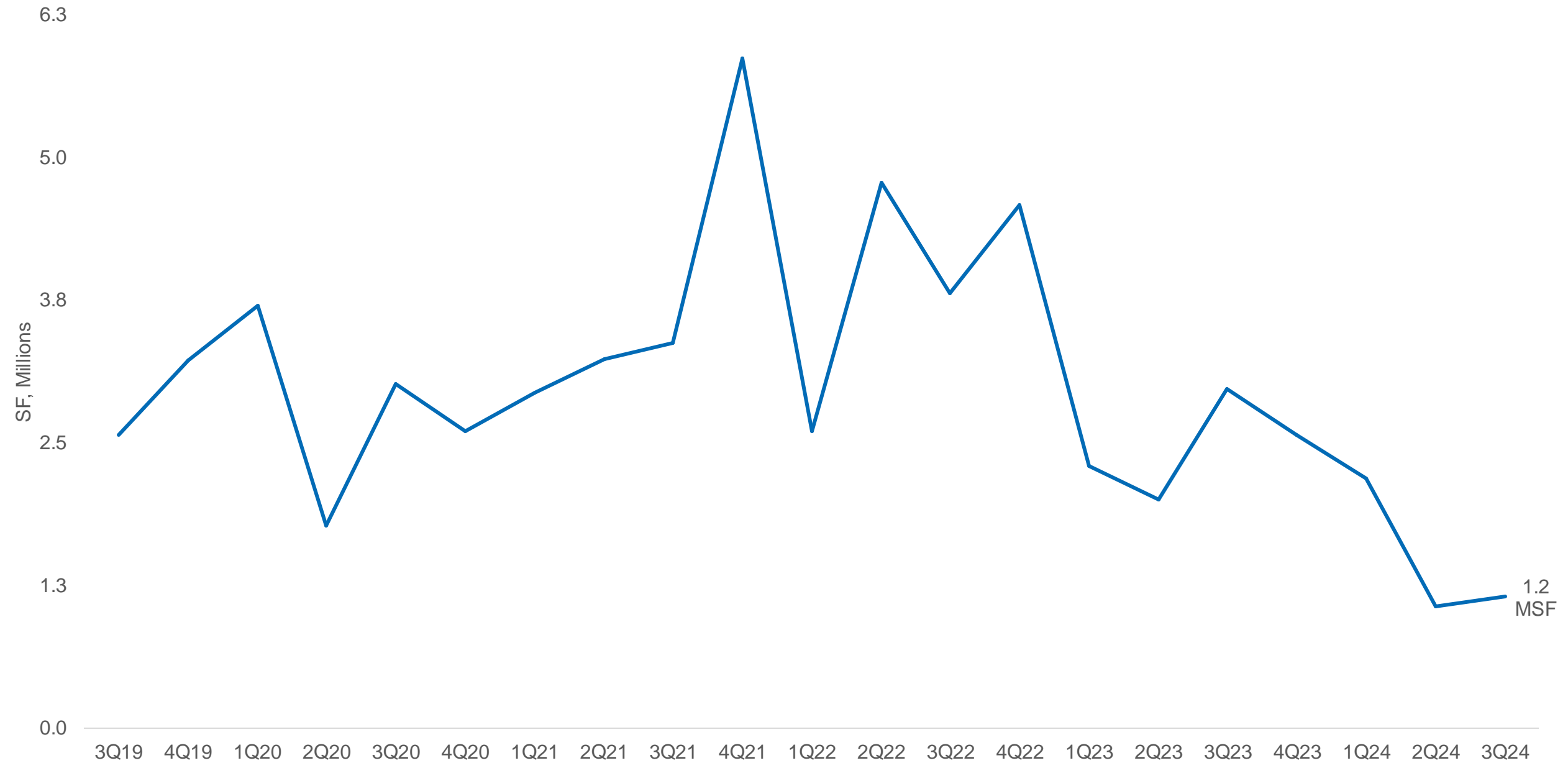


Source: Newmark Research

Industrial Leasing Activity Continues To Decelerate From Record High in 4Q21

Industrial space demand reached 1.2 million SF in the third quarter of 2024. The past year has seen a sharper slowdown in large bulk buildings, while midsized and small bay industrial spaces are expected to remain active. Tenant leasing velocity and rent growth in these segments are forecasted to pick up over the next two to three quarters. Contributing factors to the slowdown include economic uncertainty, the upcoming election, and the resolution of short-term space needs following the pandemic.

Total Leasing Activity (MSF)

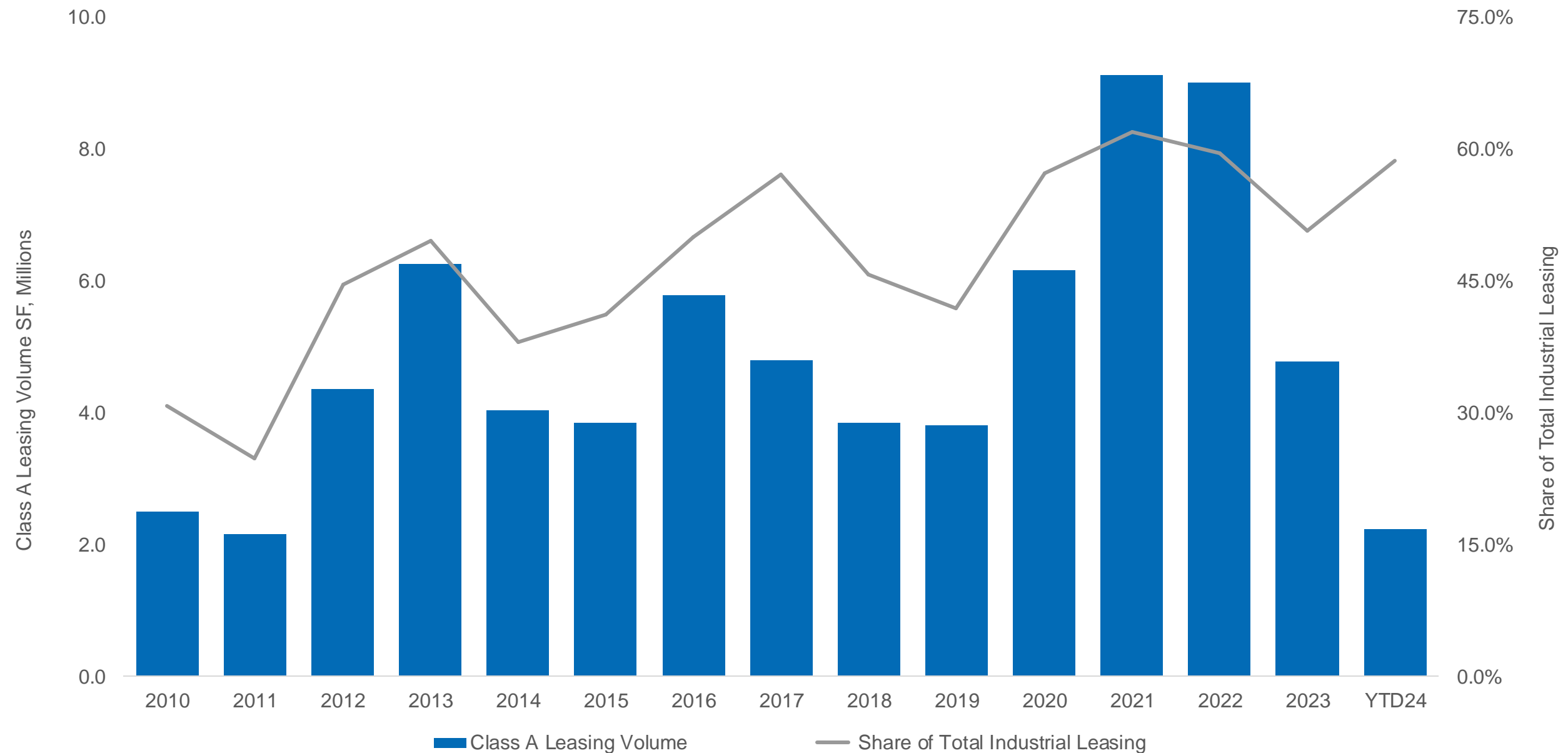


Source: Newmark Research, CoStar

Class A Warehouse Leasing Percentage Above Pre-Pandemic Average

Secondary markets like St. Louis have experienced a slower developer response to occupier demand for modern Class A warehouse space. However, as development accelerated in recent years, Class A leasing activity has grown significantly. In 2024, Class A warehouse leasing accounted for 58.8% of overall activity year to date, a notable increase from the pre-pandemic average of 47.2% between 2015 and 2019.

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



Source: Newmark Research, CoStar

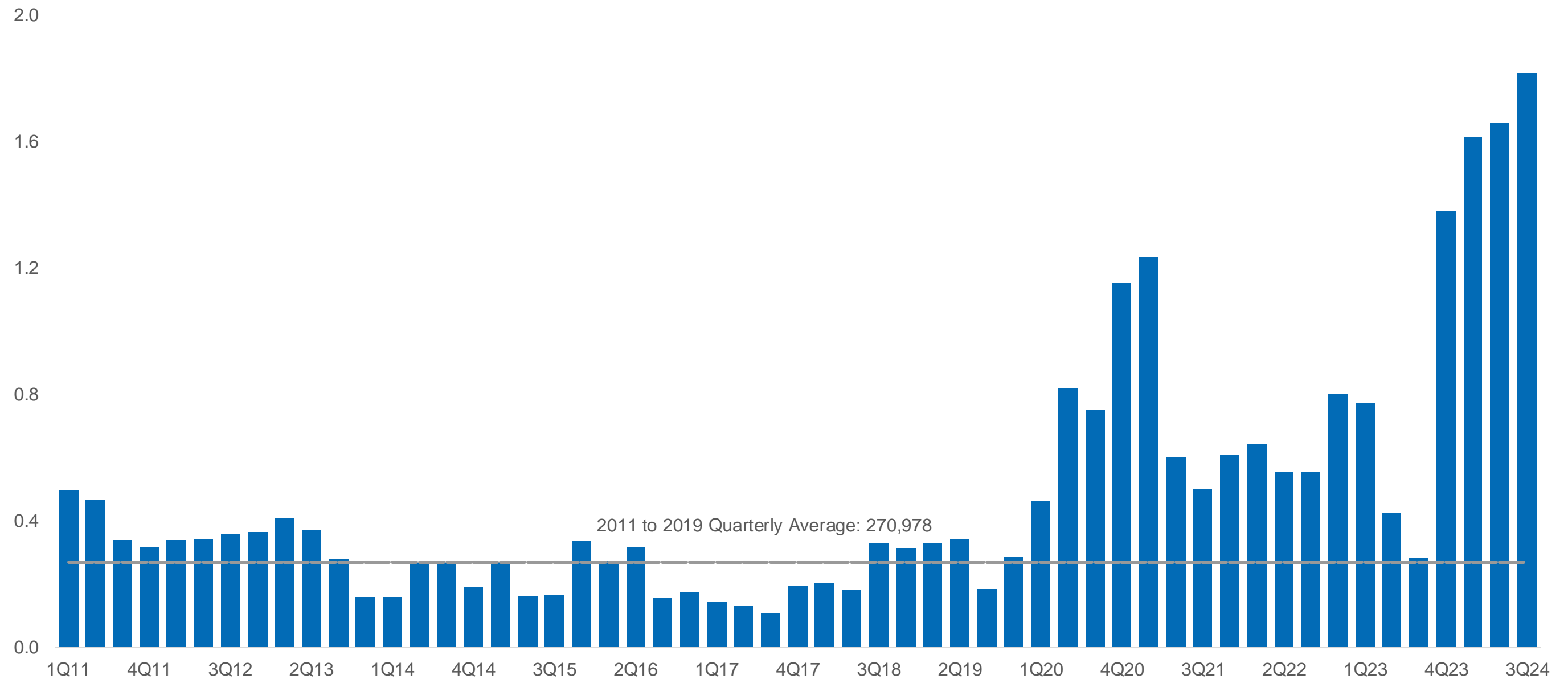
3Q24 Vacancy Drops Significantly in North County & Metro East Submarkets

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Vacant Sublease Availability At Record High, But Only 0.6% of the Market

Vacant sublease availability hit a new record of 1.8 million SF in the third quarter of 2024, over six times the long-term average of 270,978 SF. Sublease additions have accelerated over the past 11 quarters in St. Louis and most U.S. industrial markets. High interest rates, inflation, and declining consumer demand are prompting firms to control costs, leading to an increase in excess or underutilized space being placed on the sublease market.

Vacant Available Industrial Sublease Volume (MSF)

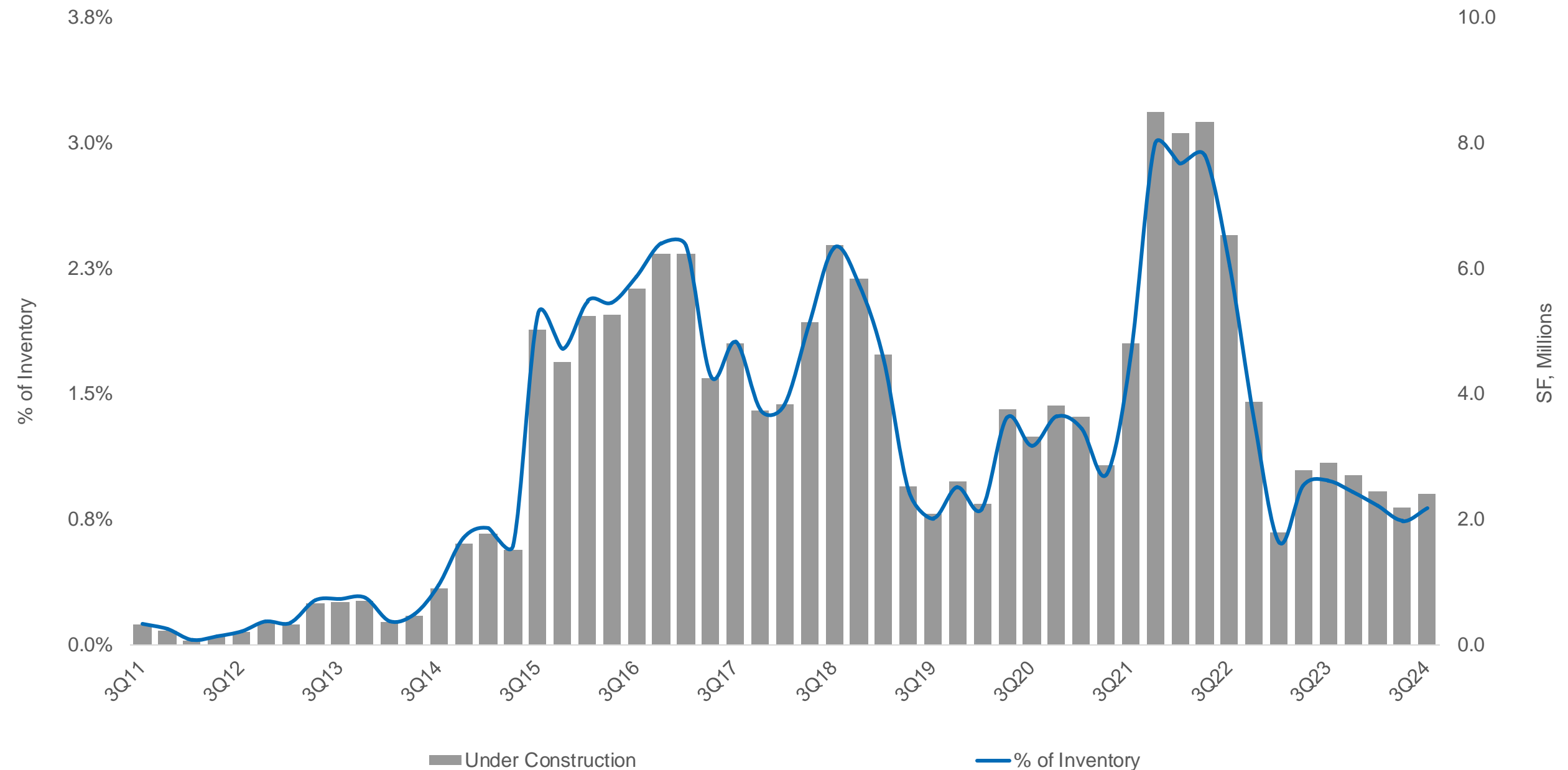


Source: Newmark Research, CoStar

Industrial Supply Pipeline Trending Downward

The construction pipeline has declined since its peak of 8.4 million SF in the third quarter of 2022. Currently at 2.4 million SF, the pipeline is projected to grow to 3.0 million SF over the next four quarters. However, some developers are pausing new projects and exiting land positions due to slowing leasing activity and a challenging financing environment for new construction. Speculative construction is expected to be limited in the coming year.

Industrial Under Construction and % of Inventory



Source: Newmark Research, CoStar

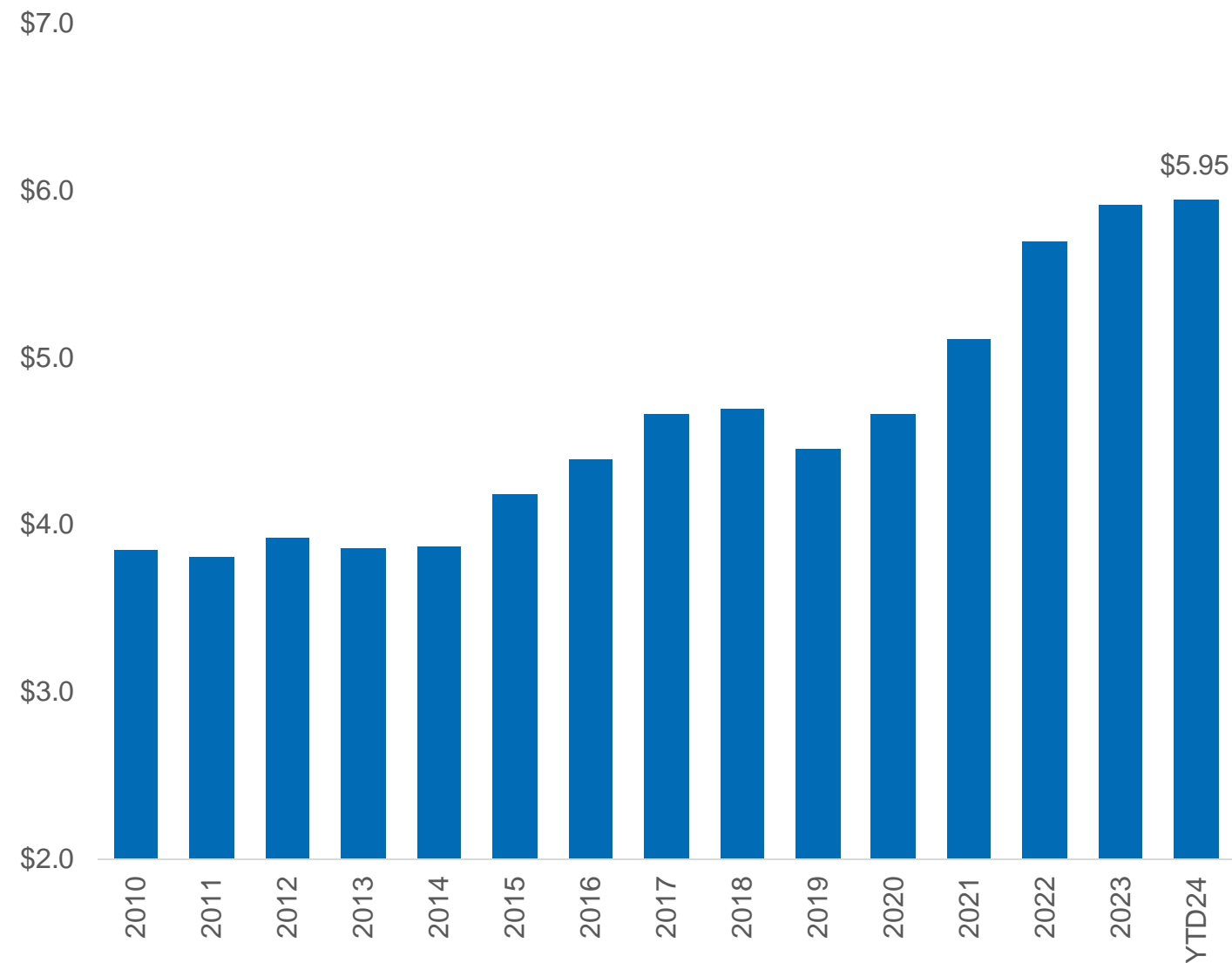
Speculative Construction Concentrated In Midsized Structures

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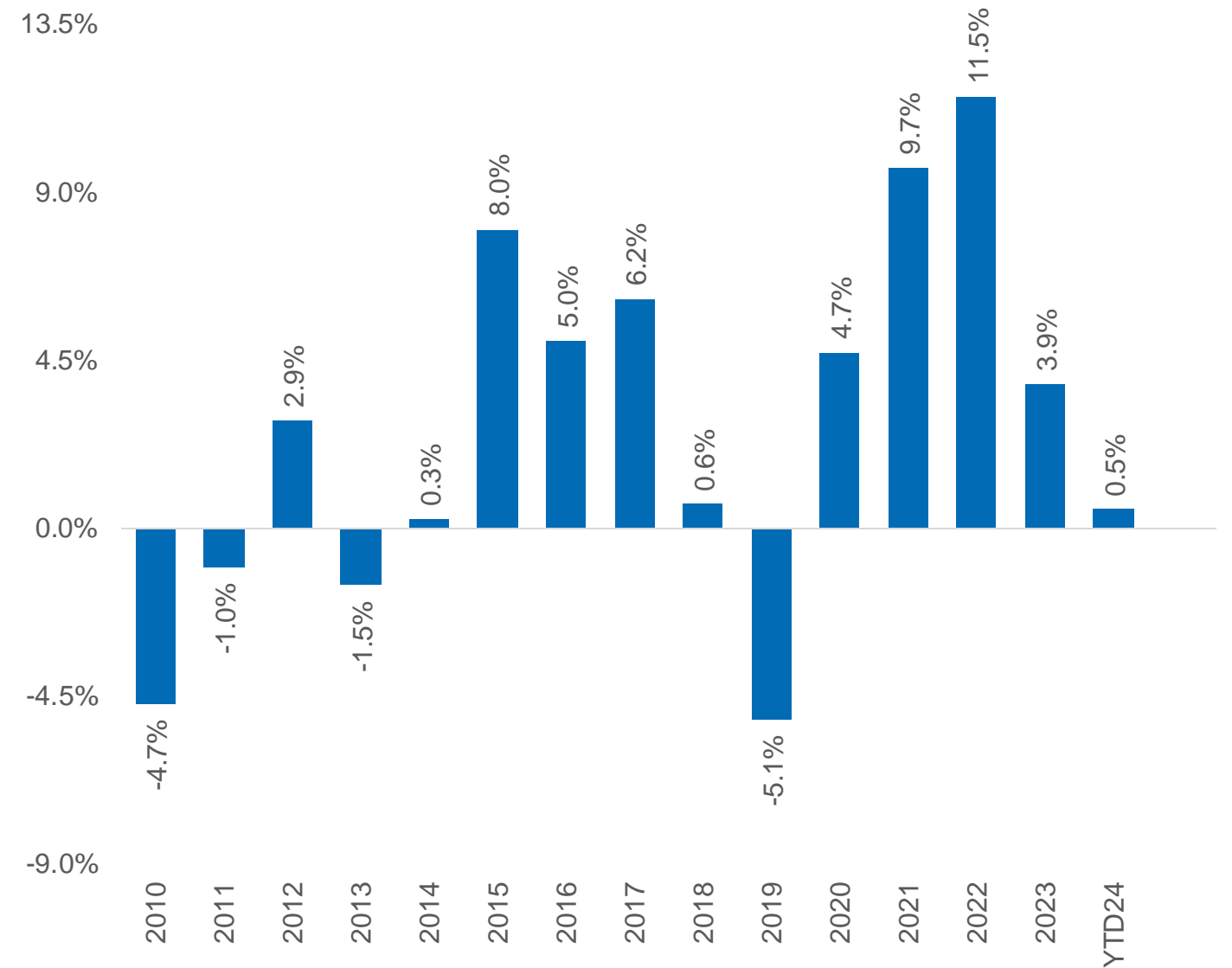
Record-Setting Industrial Asking Rent Growth Stalls Year-Over-Year

Aggregate rental rate growth reached a record 28.5% over the past four years. However, a combination of limited new product deliveries, a slower pace of leasing activity, and liquidity constraints for landlords to fund elevated concession packages is expected to keep asking rental rate growth minimal over the next two to three quarters.

Industrial Average Asking Rent, \$/SF, NNN



Year-Over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Class A Bulk Warehouse Rents Continue To Stabilize

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Notable 3Q24 Lease Transactions

The market recorded the highest net absorption since 2Q22 this quarter, despite a downward trend in leasing activity. North County, Metro East, and St. Charles County submarkets are expected to lead local leasing activity over the next four quarters. Over the past four years, net absorption reached 8.0 million SF in North County, 4.9 million SF in Metro East, and 2.7 million SF in St. Charles County, driven by strong leasing activity and competitive rental rates.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
World Wide Technology	3951 Lakeview Corporate Drive	Metro East	Renewal	1,110,000
<i>World Wide Technology recently agreed to a five-year lease renewal with Sealy & Company for 1.1 million square feet of space at Lakeview Commerce Center III in the Metro East submarket.</i>				
World Wide Technology	3971 Lakeview Corporate Drive	Metro East	Renewal	540,000
<i>World Wide Technology recently agreed to a five-year lease renewal with Sealy & Company for 540,000 square feet of space at Lakeview Commerce Center II in the Metro East submarket.</i>				
GEODIS	14 Gateway Commerce Center Drive West	Metro East	Renewal	406,500
<i>GEODIS renewed its 406,500-square-foot lease with EQT Exeter at Gateway Commerce Center in Edwardsville, IL.</i>				
Dive Bomb Industries	5555 St. Louis Mills Boulevard	North County	Direct New	128,000
<i>The sporting goods retailer will relocate its headquarters from Maryland Heights and expand into 128,000 square feet of space at the former St. Louis Mills shopping mall, Hazelwood Business Park.</i>				
Precision Pipeline	7526 N Broadway	St. Louis City	Direct New	46,750
<i>Precision Pipeline announced it signed a three-year lease for the entire 46,750-square-foot property at 7526 North Broadway in the St. Louis City submarket. The asking rental rate was offered at \$4.85/SF prior to leasing.</i>				

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Submarket Statistics



Submarket Statistics: All Classes, Warehouse, Flex

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