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2Q24

# St. Louis Industrial Market Overview

# Market Observations

## Economy

- The region’s labor market remained historically strong amid shifting macroeconomic conditions. May’s 3.5% unemployment rate was 50 basis points lower than the 4.0% 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, followed by Education & Health, led all sectors in job gains during the past 12 months.
- Industrial firms are continuing to adjust labor needs. Locally, all three industrial sectors experienced growth during the past year: Construction, by 2.1%; Trade/Transportation/Utilities, by 1.5%; and Manufacturing, by 0.9%.

## Major Transactions

- The St. Louis-based baby products manufacturer, Dr. Brown’s, signed a seven-year lease for 345,640 SF of warehouse space at 5801-5895 N. Lindbergh Blvd. in Hazelwood, MO. Dr. Brown’s is expected to move in by February 2025.
- Clayco subsidiary, Concrete Strategies, LLC, announced in June it will relocate its service, innovation and training center. The company signed a 10-year lease for the entire 191,000-SF building at 5790 Campus Pkwy. in Hazelwood, MO. Concrete Strategies is expected to move in by September 2024.
- Brinkman Construction officially broke ground on Coastal Carriers’ new 125,500-SF cross-dock, industrial cold storage distribution center at Old Court Dr. in Foristell, MO. The facility is expected to deliver by September 2025.

## Leasing Market Fundamentals

- Net absorption in the second quarter of 2024 totaled 637,424 SF. Total net absorption during the past four quarters was 644,786 SF. The market is recalibrating as the economy slows and construction deliveries outpace net absorption, reversing the trend of the last two years.
- The 2.2-million-SF construction pipeline has trended downward over the past three quarters but is expected to accelerate towards 3.0 million SF in the next four quarters.
- Vacancy remained flat at 5.3% during the quarter but increased 60 basis points over the past four quarters as deliveries outpaced absorption. Asking rental rate growth for the overall market year over year has been nonexistent, totaling negative 0.2%.

## 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 slightly 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 rental rate growth is expected to remain stagnant during the next four quarters as a lack of liquidity forces landlords to lower rents, rather than provide elevated concession packages. Key submarkets with limited offerings will retain prime rent levels.

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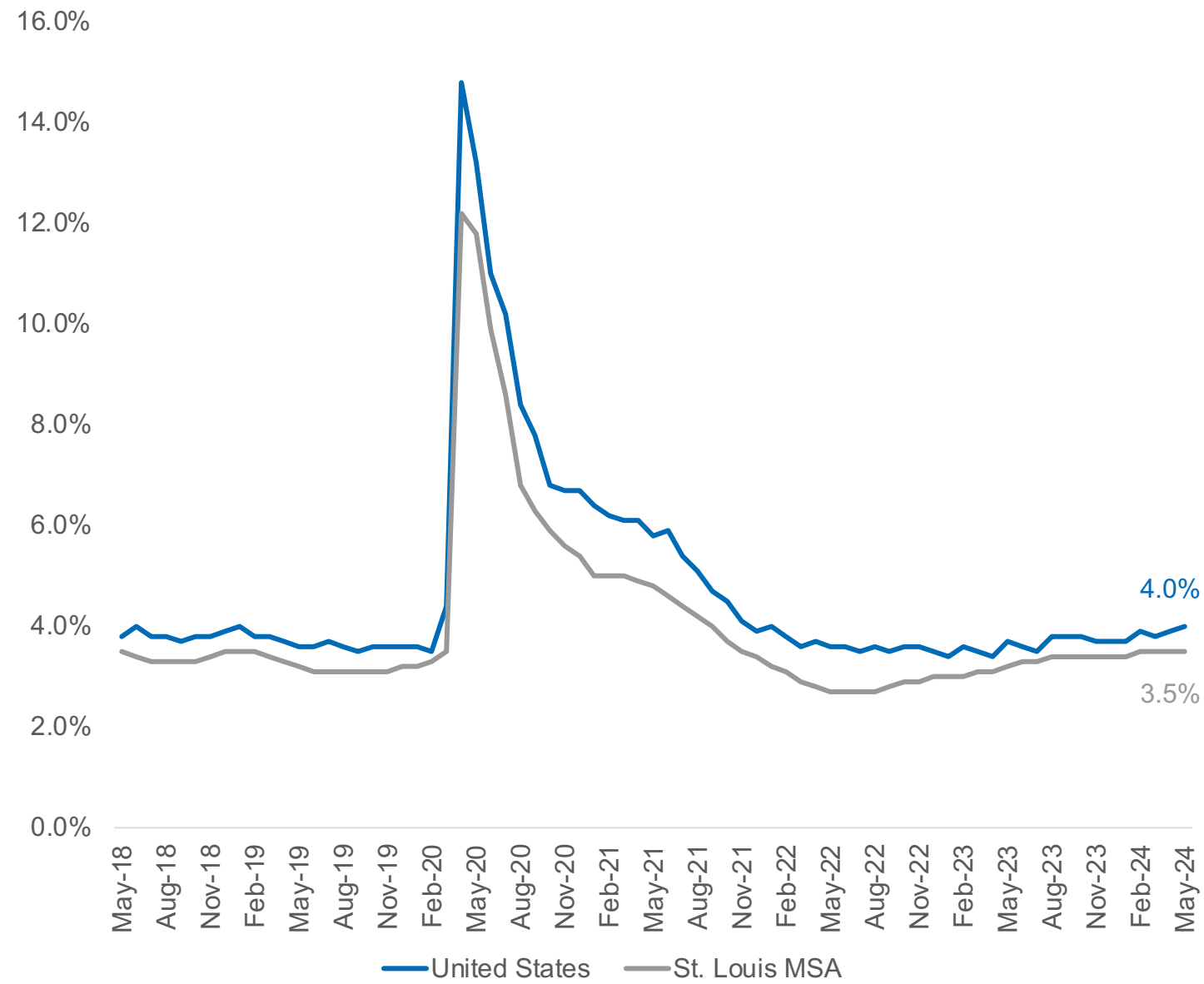
# Economy



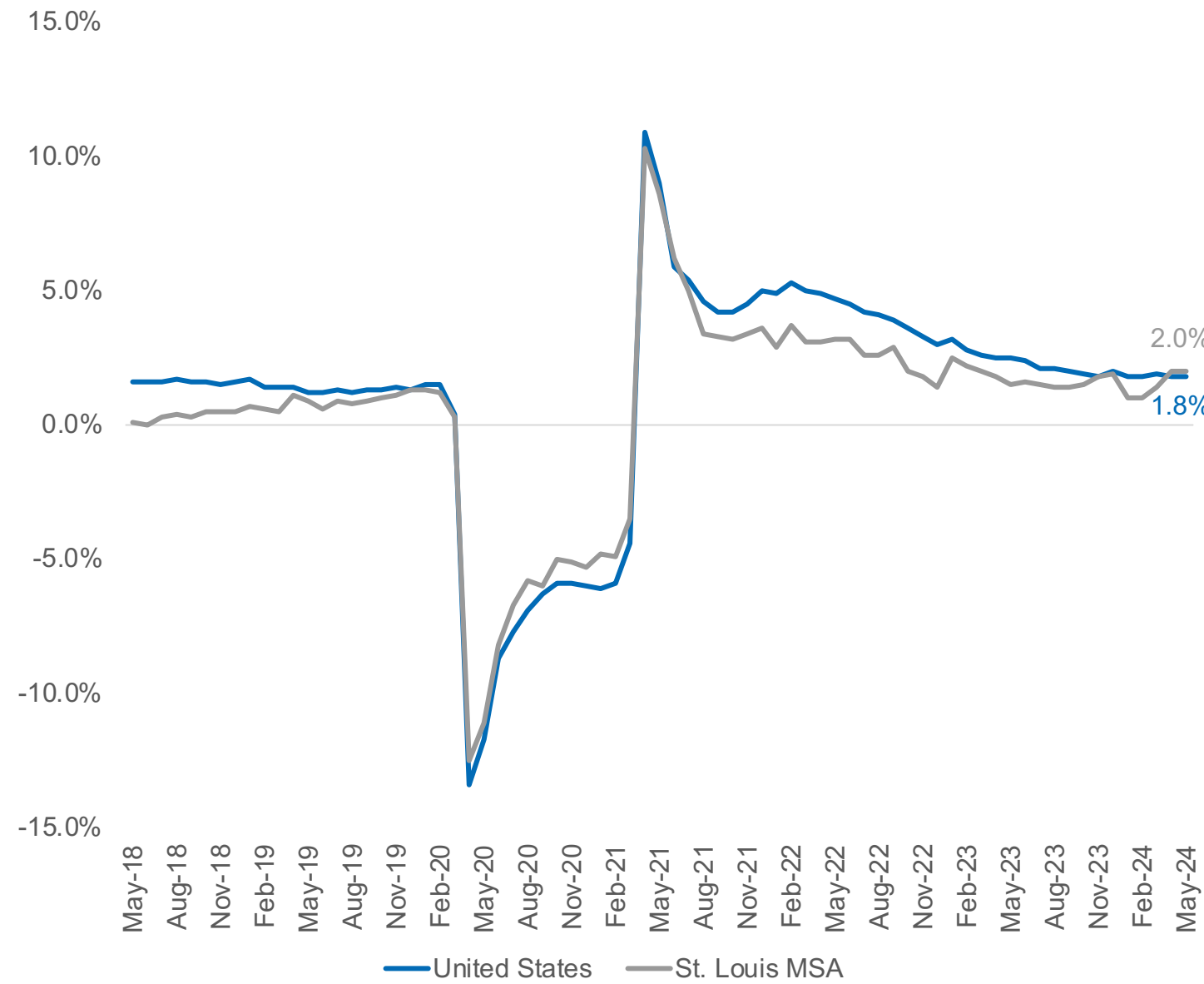
# Metro Employment Trends Signal a Stable Economy

The region's labor market remains on relatively solid footing, amid elevated interest rates. Unemployment in the region recovered from the pandemic and remains 50 bps below the national average.

**Unemployment Rate, Seasonally Adjusted**



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

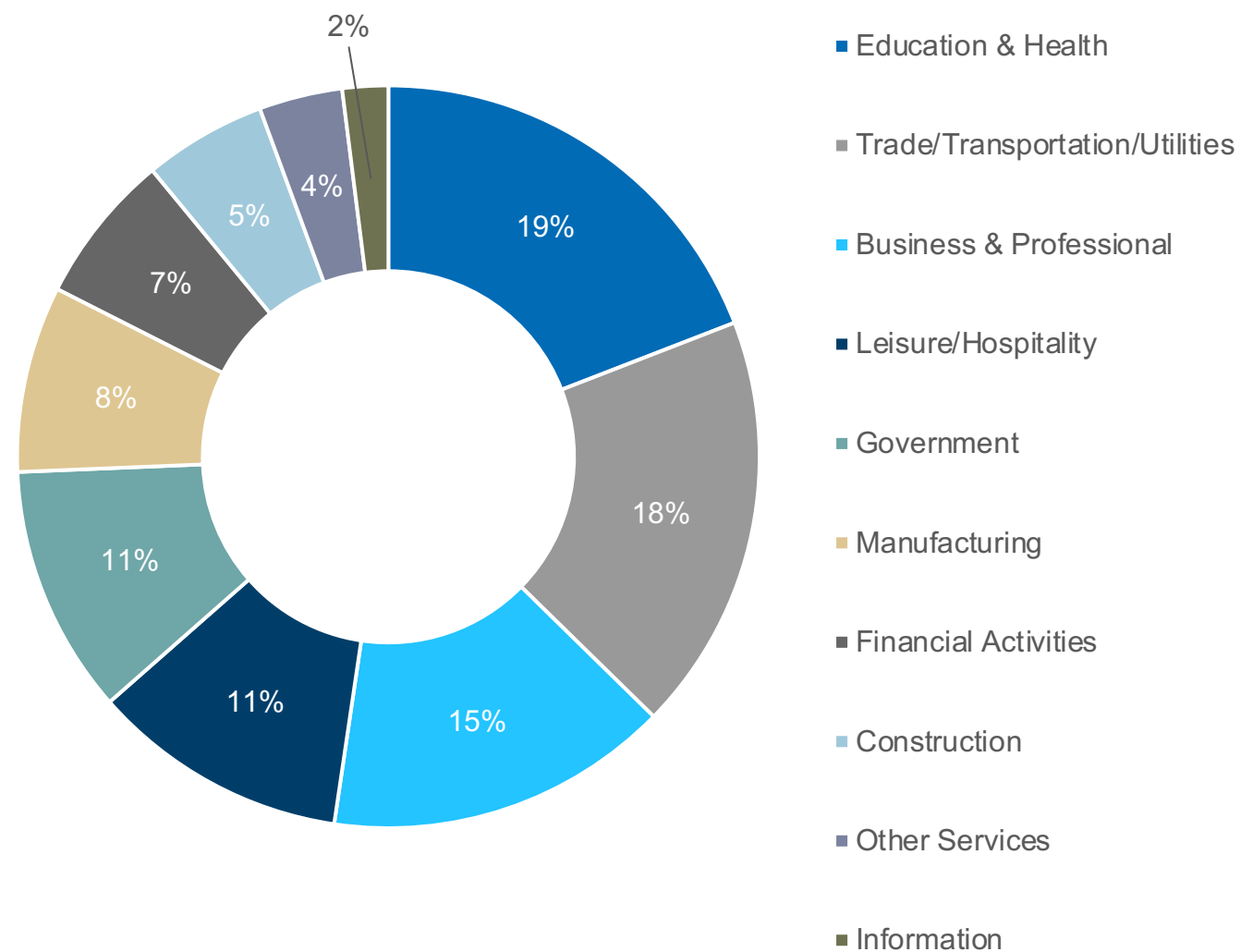


Source: U.S. Bureau of Labor Statistics, St. Louis MSA

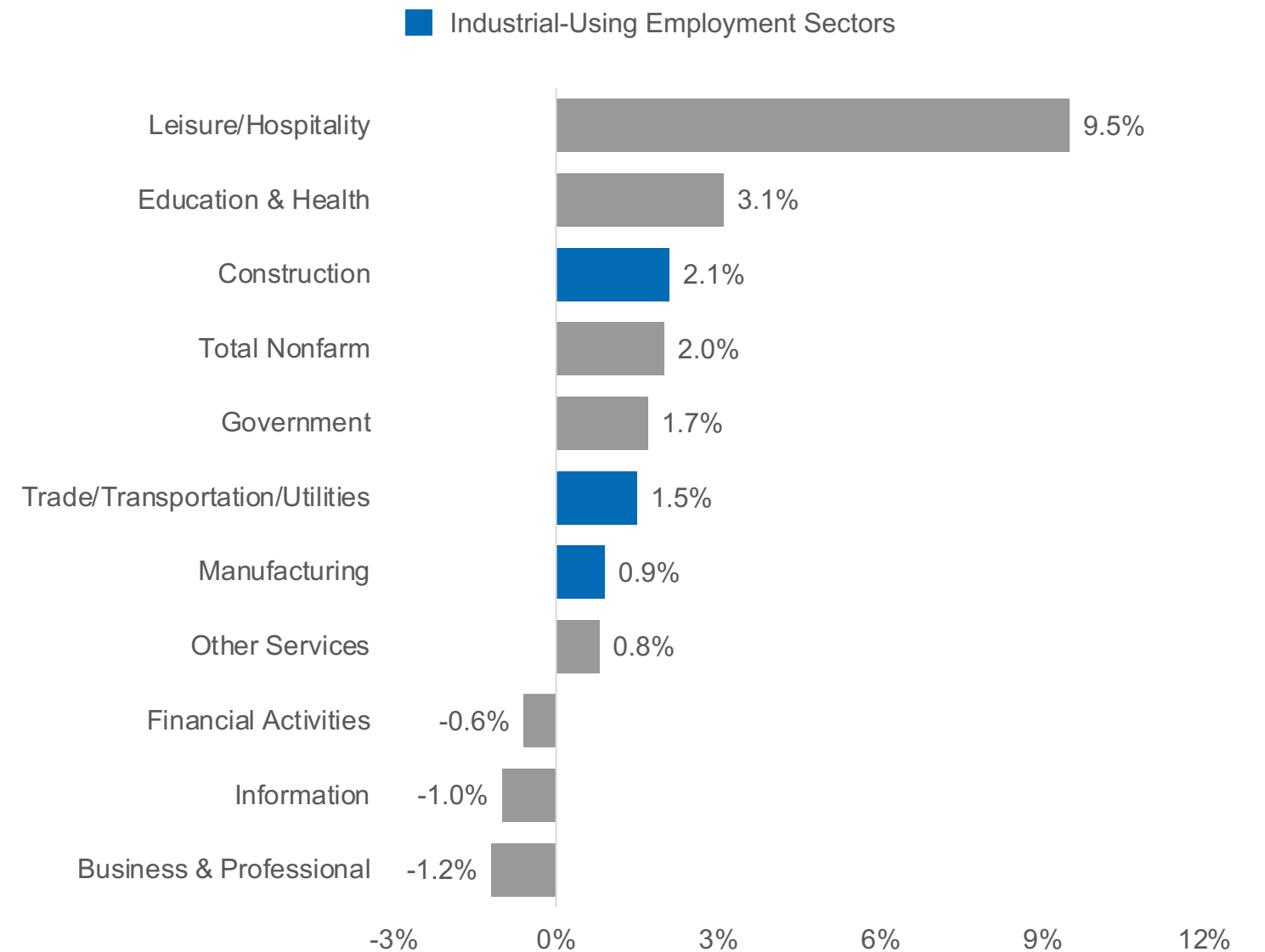
# Job Growth Driven Primarily by Services Still Making up for Pandemic Losses

The Leisure/Hospitality sector led all industries in regional annual job growth. 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, May 2024



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

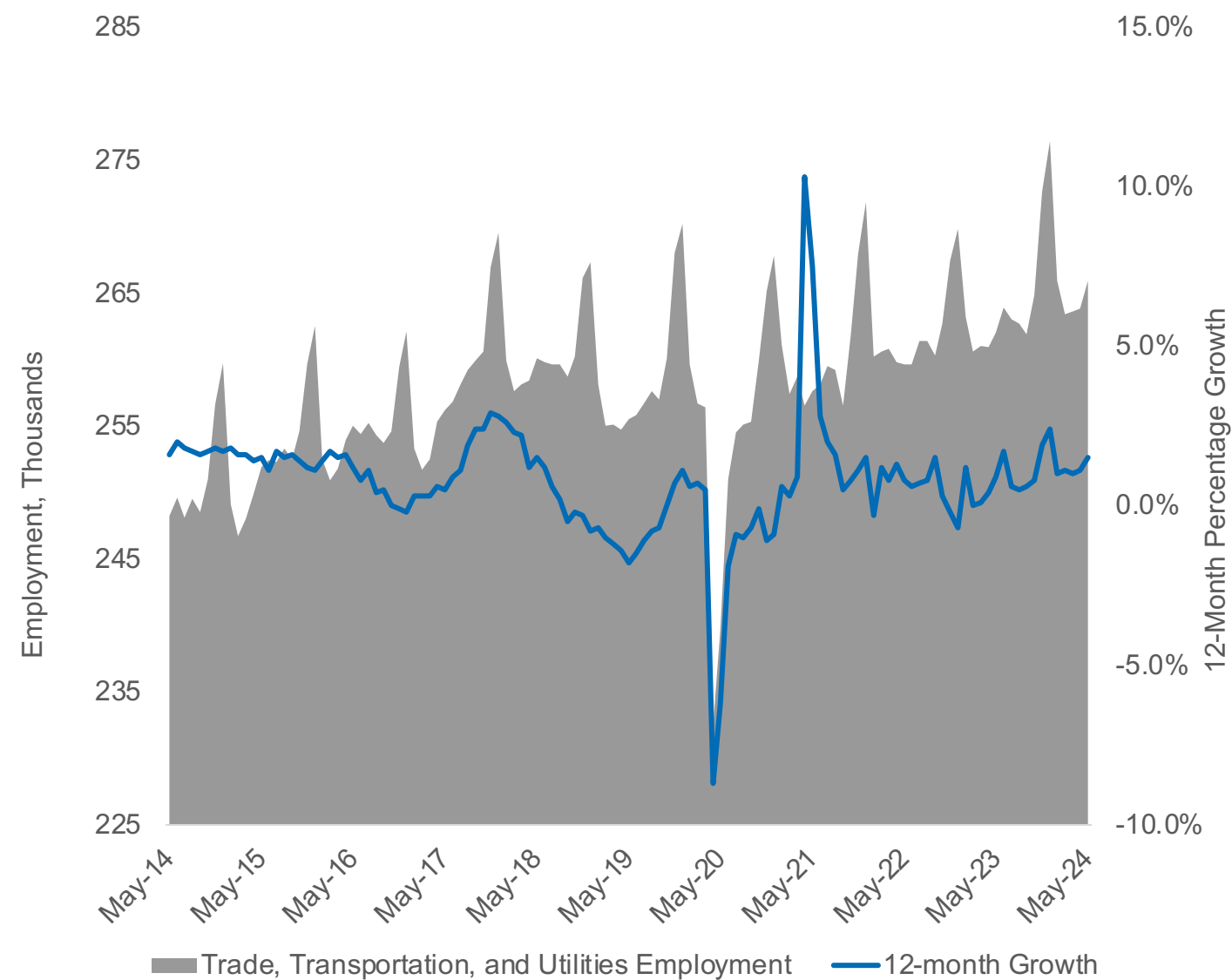


Source: U.S. Bureau of Labor Statistics, St. Louis MSA

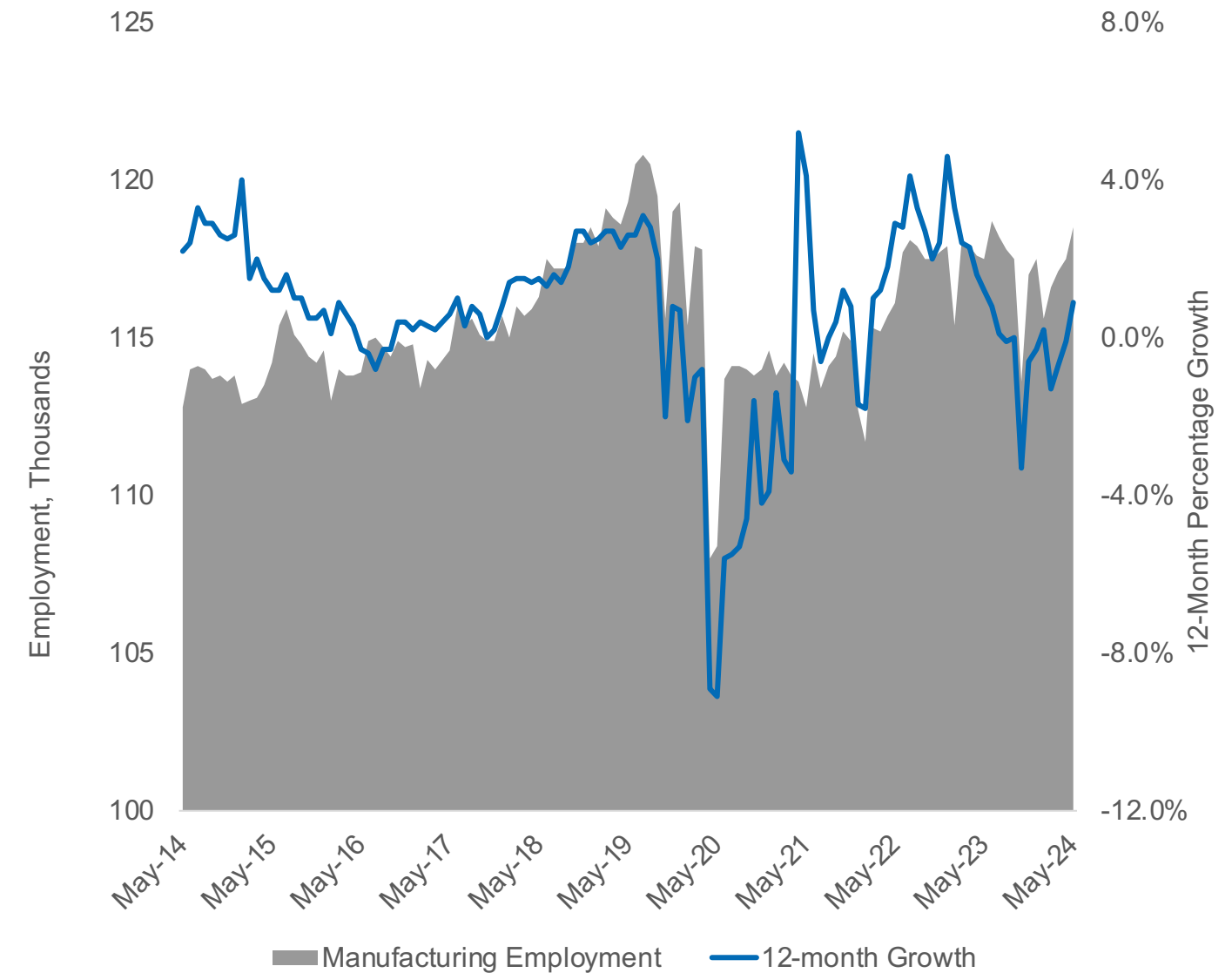
# Overall Industrial-Using Employment Has Rebounded

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





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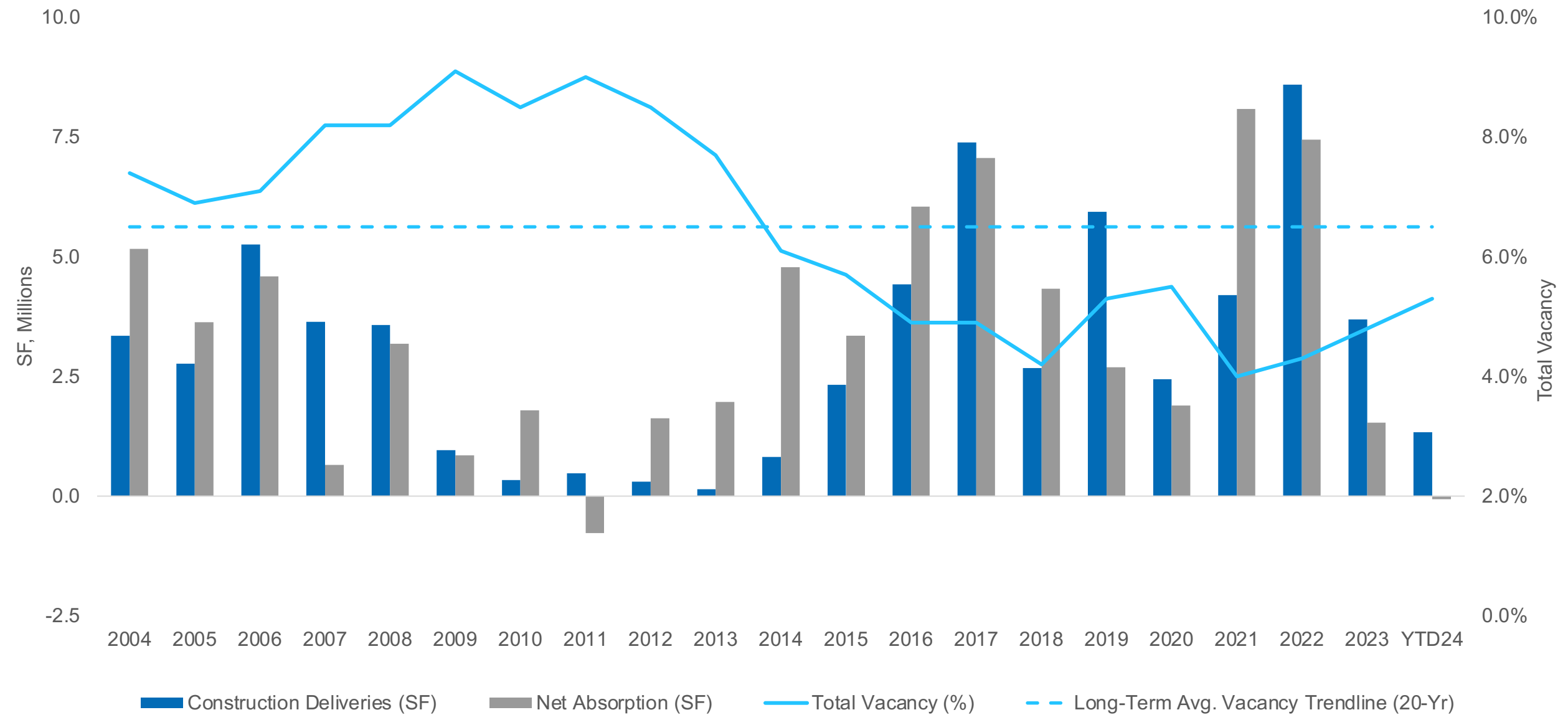
# Market Overview

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# Vacancy Rises as Deliveries Outpace Absorption

Vacancy increased 0.6% (60 bps) to 5.3% 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.

## Historical Construction Deliveries, Net Absorption, and Vacancy

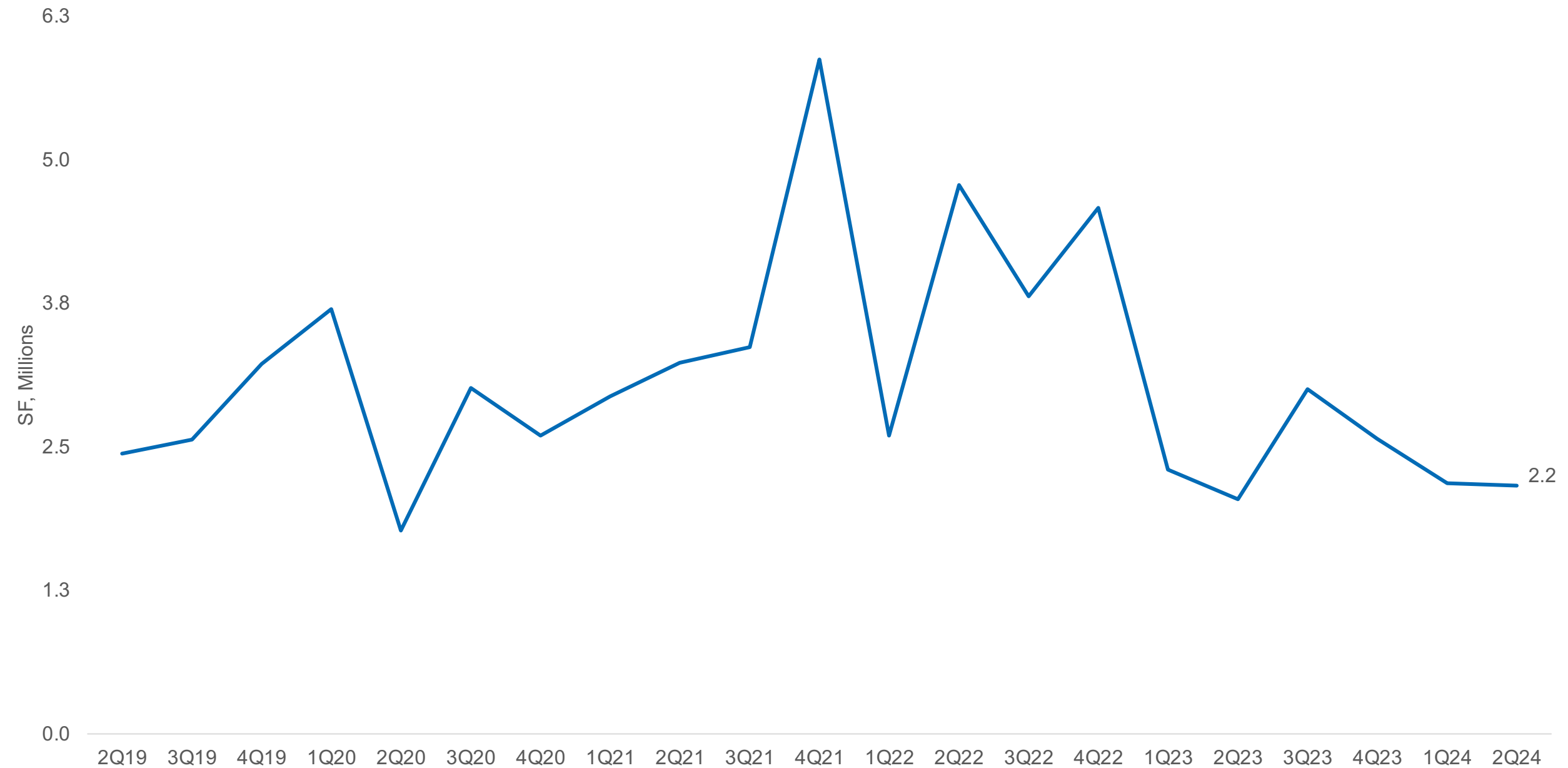


Source: Newmark Research

# Industrial Leasing Activity Continues to Decelerate from Record High in 4Q21

Demand for industrial space registered 2.2 million SF in the second quarter of 2024. The slowdown during the past year is more acute in large bulk buildings. Expectations are that tenant leasing velocity and rent growth will remain active in mid-sized and small bay industrial spaces with activity forecasted to pick up progressing into 2025. 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.

Total Leasing Activity (MSF)

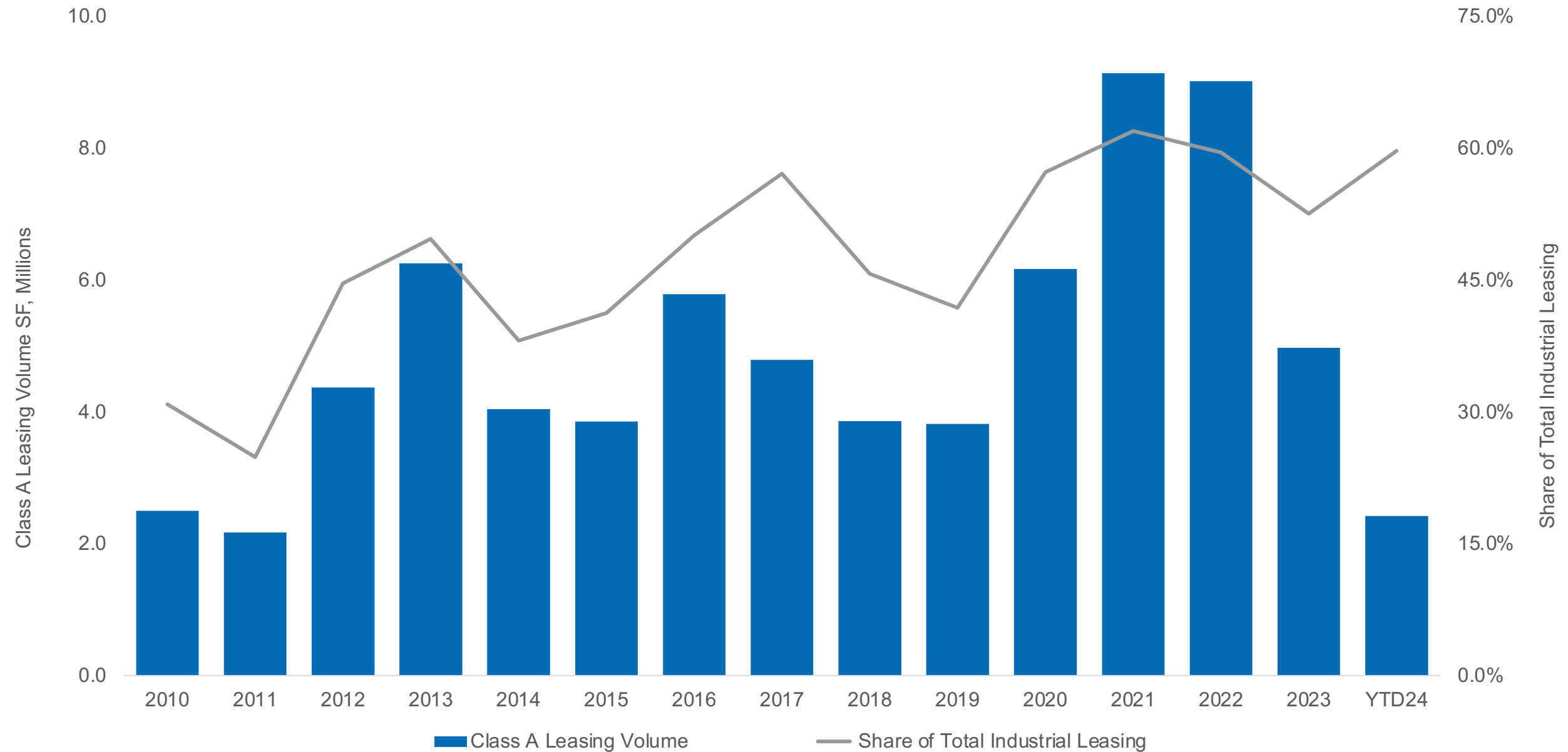


Source: Newmark Research, CoStar

# 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 59.7% of overall activity year to date in 2024, well 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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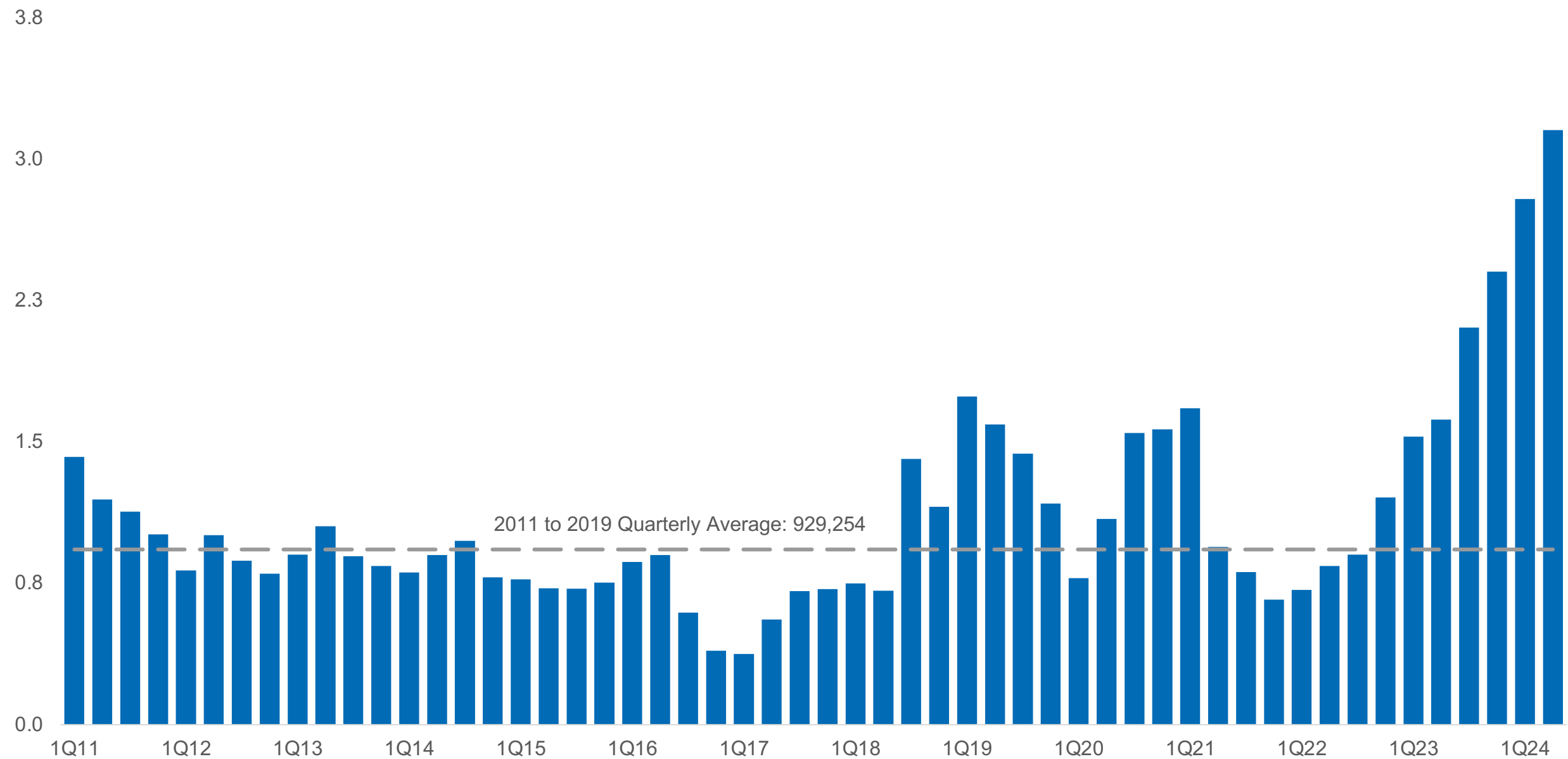
# Vacancy Increases in St. Charles Co. and West Co. During the First Half of 2024

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# Industrial Sublease Availability Continues Ascent Above Pre-Pandemic Levels

Sublease availability in the second quarter of 2024 reached a new record of 3.2 million SF, more than three times the long-term average of 929,254 SF. The rate at which subleases were added to the market accelerated over the past 10 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)

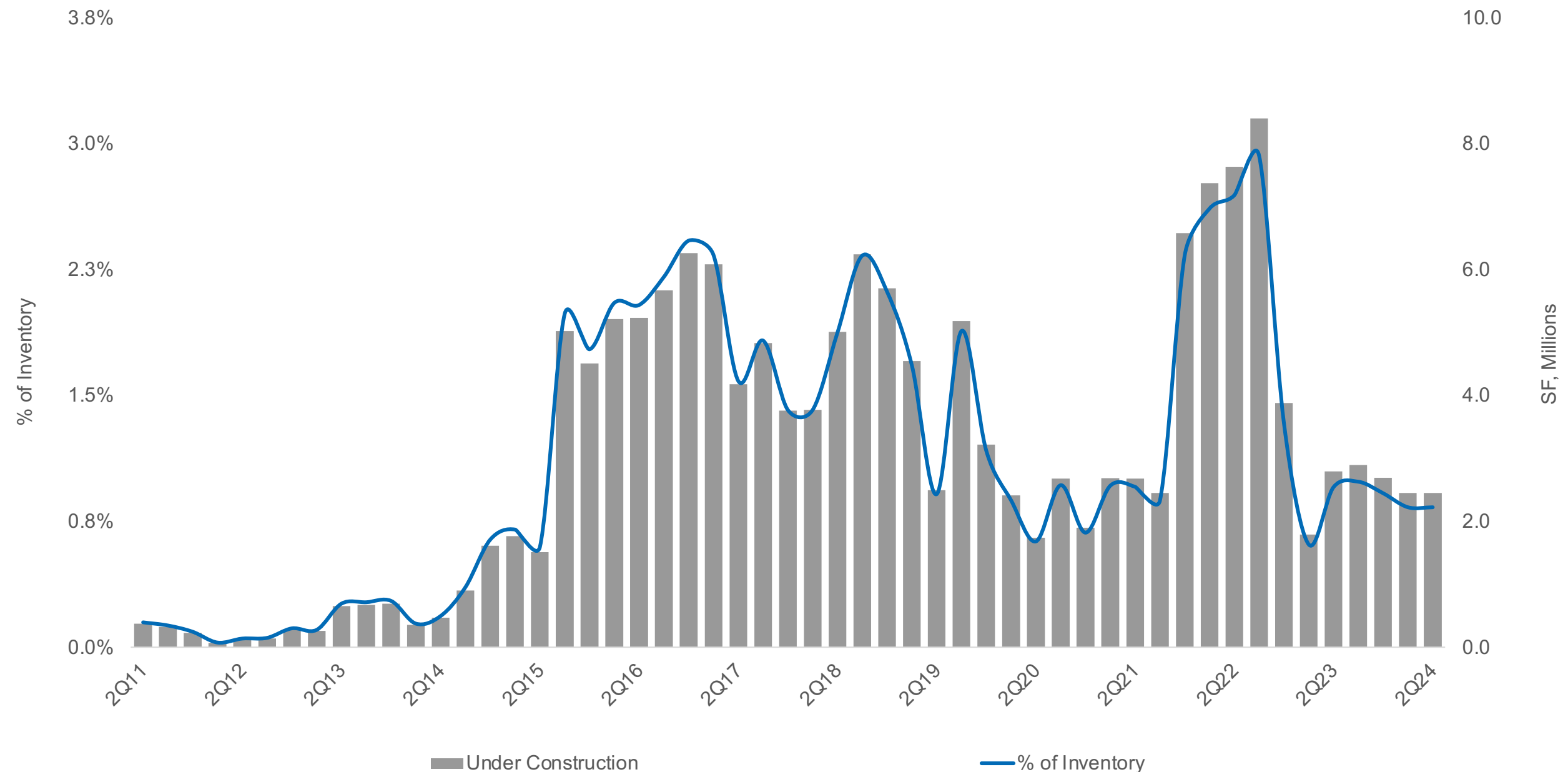


Source: Newmark Research, CoStar

# 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 2.2 million SF, the pipeline will accelerate towards 3.0 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 during the next four quarters to be limited.

## Industrial Under Construction and % of Inventory



Source: Newmark Research, CoStar

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## Speculative Construction is Concentrated in Midsized Structures

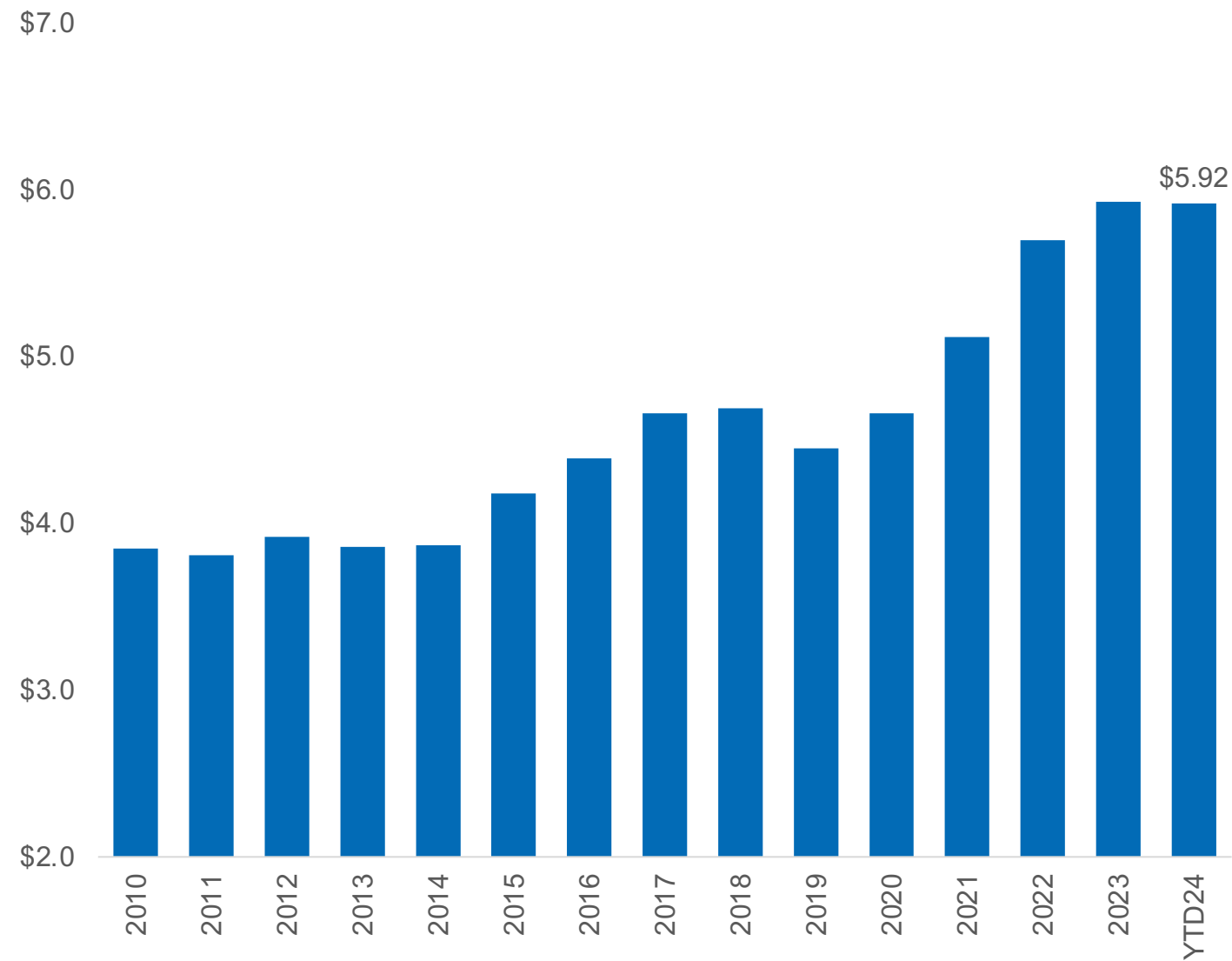
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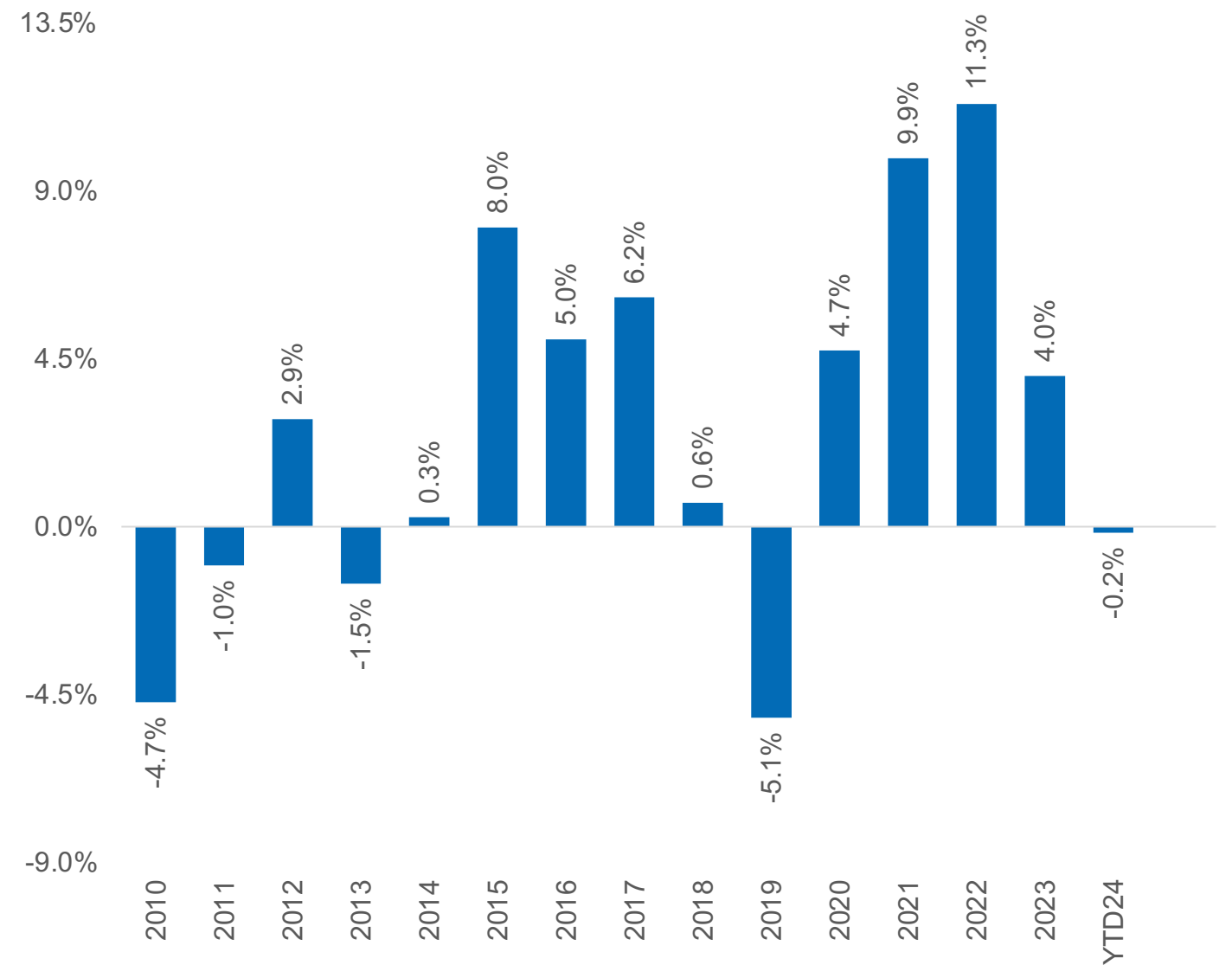
# Record-Setting Industrial Asking Rent Growth Stalls Year Over Year

Record aggregate rental rate growth of 32.1% during the past four years, limited new product deliveries, a reduced pace of leasing activity, and liquidity constraints for landlords to fund elevated concession packages will combine to keep asking rental rate growth to a minimum over the next two quarters.

Industrial Average Asking Rent, \$/SF, NNN



Year-Over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

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## Class A Bulk Warehouse Rents Continue to Stabilize in 2Q24

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# Notable 2Q24 Lease Transactions

The market tightened during the first quarter of 2024, although the pace of leasing activity remained flat. 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 6.9 million SF in North County, 4.4 million SF in Metro East and 2.9 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
Dr. Brown's Company	5801-5895 N Lindbergh Boulevard	North County	Direct New	345,640
<i>Formerly known as 'Handi-Craft', the St. Louis-based baby products manufacturer recently signed a seven-year lease for 345,640 SF of warehouse space in Hazelwood, MO. This facility will be used for storing and shipping logistics for the company's baby bottles and related products. Dr. Brown's is expected to move in by February 2025.</i>				
Concrete Strategies, LLC	5790 Campus Parkway	North County	Direct New	191,000
<i>Clayco subsidiary, Concrete Strategies, LLC, announced in June it will relocate its service, innovation and training center. The company signed a 10-year lease for the entire 191,000-SF building at 5790 Campus Pkwy. in Hazelwood, MO. The space was offered at an asking rate of \$4.95/SF and negotiated down to a \$4.35/SF starting rate. Concrete Strategies is expected to move in by September 2024.</i>				
Coastal Carriers	TBD – Old Court Drive (Under Construction)	Warren County	Direct New	125,500
<i>Brinkman Construction officially broke ground on Coastal Carriers' new 125,500-SF cross-dock, industrial cold storage distribution center in Foristell, MO. The warehouse will include a 55,600-SF freezer with a 42-foot clear height; a 23,500-SF cold dock that will span 70 feet deep; a 29,300-SF cooler and 15,500 pallet positions total. The facility is expected to deliver by September 2025.</i>				
Apollo Express, Inc.	3740-3780 Rider Trail S	North County	Direct New	89,600
<i>Apollo Express, Inc., a trucking and logistics company, has leased out 89,600 SF in the 319,800-SF multi-tenant property at 3740-3780 Rider Trail S within the Earth City Business Park. The space was offered at an asking rate of \$4.50/SF.</i>				
Window Nation	3655-3657 Pennridge Drive	North County	Direct New	26,330
<i>Window Nation announced it signed a 26,330-SF lease at the 72,750-SF, multi-tenant facility at 3655-3657 Pennridge Dr. in Bridgeton, MO.</i>				

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# Submarket Statistics



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## Submarket Statistics: All Classes, Warehouse, Flex, Underground

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