MARKET REPORT

INDUSTRIAL

St. Louis Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

2H/19

Western Metro Growing as a Distribution Hub; Investors See Value-Add Opportunity in Downtown Assets

Speculative projects in west St. Louis exacerbate vacancy, demand remains robust metrowide. Access to multiple interstates attracts logistic services and strong fundamentals bolster the industrial market in St. Louis. Over the past few years, developers haven't responded to increasing space demand by overbuilding, which allowed vacancy to contract 350 basis points from 2013 through 2018. In 2019, vacancy expanded for the first time since 2011, due to a rise in speculative construction. Developers were particularly active in Hazelwood, anticipating the potential privatization of St. Louis Lambert International Airport and the positive impact it would have on air freight. Outside of this locale, the majority of deliveries were in Chesterfield and Saint Charles. Development in these three cities has brought roughly 2.5 million square feet to the market in 2019 between six projects. Currently, four additional projects creating 1.0 million square feet are underway in Hazelwood, three of which are not pre-leased. Although vacancy will swell in 2019 due to these large incoming speculative additions, demand in St. Louis remains robust. Since 2012, absorption has outpaced construction each year. In the first half of 2019, multiple fortune 500 companies moved into new facilities within the metro. Nike moved into a 247,000-square-foot building in Wentzville this past January, and Amazon moved into a 855,000-square-foot property in St. Charles this past May.

Buyer activity intensifies for downtown and Class B/C properties. Investors became increasingly active in the St. Louis industrial market this past year, as trading activity was up 13 percent since July 2018. Deal flow on Class B/C properties in the $1 million to 10 million tranche advanced 19 percent, and this category accounted for 85 percent of all trades. One-third of the traded properties were located in the metro's core as buyers portrayed specific interest in warehouses priced between $1 million and $4 million here. Metrowide, the average first-year return on traded industrial properties retreated 30 basis points to 7.6 percent over the past year. Class B/C properties traded with average yields in the high-7 percent range and Class A traded in the mid-5 to mid-6 percent range.

2019 Market Forecast

Employment up 1.4% — Metro employers will create 20,000 new positions in 2019, nearly doubling the 11,400 payrolls established in the previous year.

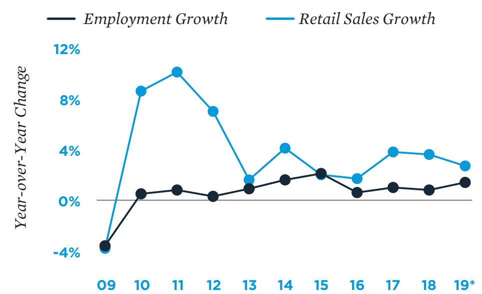
Construction 5.7 million sq. ft. — Developers will bring 2.3 million more square feet to market than in 2018. The majority of completions will be in west St. Louis cities and St. Charles County.

Vacancy up 120 bps — Vacancy will expand to 5.4 percent following a slew of speculative deliveries in 2019. This will be the first annual vacancy increase in the past eight years.

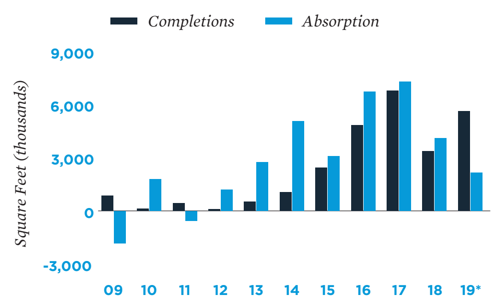
Rent up 1.1% — The average asking rent will creep up to $4.65 per square foot from $4.60 in the previous year. The highest average asking rent in the metro will be for properties located in south, west and central St. Louis counties.

Investment — Investors will continue to target downtown properties as limited completions over the past few years has pushed up rents. Additionally, St. Charles and Hazelwood industrial park projects will interest value-add buyers for their growth potential linked to e-commerce warehousing needs.

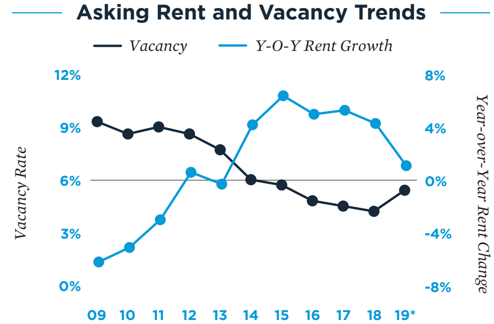
Employment vs. Retail Sales Trends



Industrial Completions



Asking Rent and Vacancy Trends



** Forecast*

Sources: CoStar Group, Inc.; Moody's Analytics; Real Capital Analytics;

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