INDUSTRIAL MARKET REPORT

St. Louis Metropolitan Area

BLOCK HAWLEY

A BLOCK REAL ESTATE SERVICES AFFILIATE

2023

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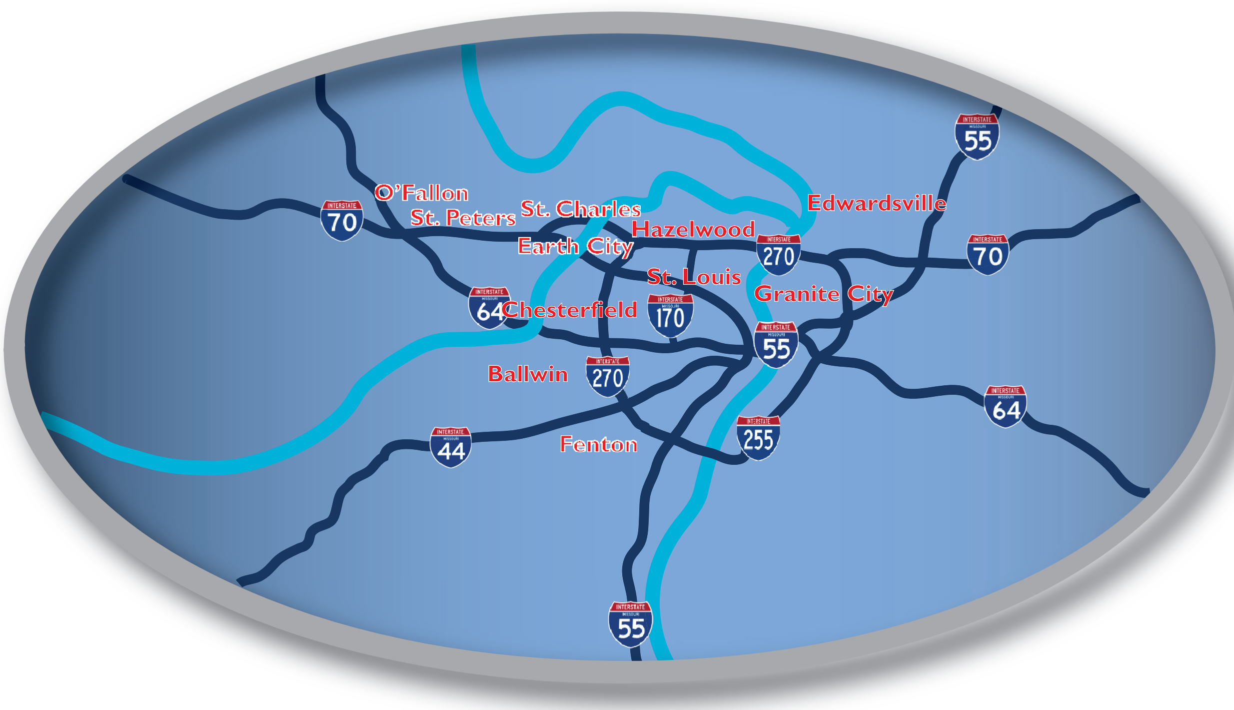
In 2008, we opened our operations in St. Louis under the name Block Hawley. With over 4,000,000 square feet of listed property and over 7,000,000 square feet under management in St. Louis, Block Hawley continues to be one of the largest service real estate firms in the St. Louis area.

We understand there is no single approach to handling every real estate transaction; each has its own goals, its own challenges. Our team of industry experts has the experience to meet any and all demands of our clients. It is this fundamental business strategy that has allowed us to prosper and diversify into a multi-dimensional firm specializing in commercial brokerage, asset/property management, investment services, development services and financial services.

It is our goal to serve our client's interests with the integrity, accountability and the expertise it takes to build and maintain long-term relationships. Our clients entrust us with the stewardship of their financial resources because we staff specialists with directly-related experience in all aspects of commercial real estate. What's more, our entire team has been carefully recruited and trained in the basics of personal integrity, professionalism and a commitment to service.

All of us at Block Hawley take pride in being progressive, yet prudent; in being enthusiastic, yet always objective, and we use these traits in all we do to represent our clients' interests. Our guiding principles for 2024 and beyond, as we continue to expand our operations, are to make sure that we can continue to provide our clients with the best in class real estate services, to develop and implement the appropriate strategies for our clients, and to be successful in achieving our client's goals.



St. Louis Metropolitan Area Map

MARKET OVERVIEW

2023 was a challenging year after a very nice run of 7 years here in the St. Louis industrial market. Inflation and interest rates were the main culprit that slowed our market down significantly since 2022. Coming back from COVID policies that caused major problems in global supply chain and continuing challenges in the labor market have contributed to a slowing economy. While monetary policies have slowed inflation, it has not eliminated the negative impact it still has on much of the country. Consumer goods and energy are still expensive compared to the pre-Covid timeframe. With a presidential election looming, there is hope for a change that could bring deregulation and pro-business policies back that should trigger a rebound in the economy. Banking policy is getting tighter with increasing equity requirements, shorter amortization periods and higher interest rates. We are looking for more of the same as the Feds may be finished with any more interest rate hikes but expect tighter fiscal policy from local banks. There is certainly a chance that the economy will slow even further, and we potentially enter a traditional recession.

2023 showed the beginning signs of negative absorption, especially in the eastern metro market. There is currently more than 3.5 million square feet of available space, both direct and for sublease as large regional and national companies move products around the country to different cities to save money. We saw vacancies begin to rise in most major cities, as companies begin to give back space although the metro west market, which includes St. Louis City, St. Louis County and St. Charles County, continues to see low vacancies. Regardless, we still have a shortage of labor and thus supply-chain problems still exist and will into the foreseeable future. All these factors increase costs, which continue being passed on to the consumer.

We saw a major reduction in construction starts in 2023 with a total of approximately 1.6 million square feet of new construction in both speculative construction and user-driven construction. We did see a reduction in construction costs, although certain things, like switchgear and HVAC still have very long lead times. Construction pricing overall should remain level in 2024.

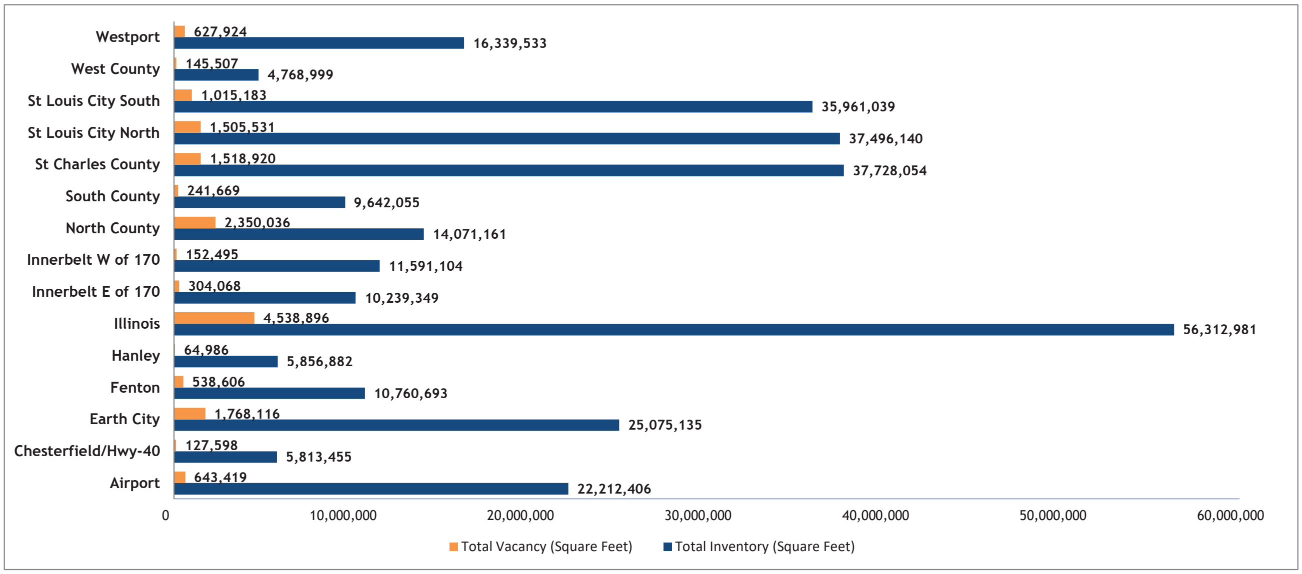
The great news for owners of industrial buildings is that vacancies will stay low for the foreseeable future. Demand for space has remained strong through 2023 and into 2024. Of the 1.1 million square feet of speculative construction that delivered in 2023, 650,000 square feet has been absorbed. As stated above, increasing interest rates combined with high construction material costs will slow speculative construction significantly in 2024.

Total new construction deliveries in 2023 were approximately 1.6 million square feet in ten (10) buildings. Overall vacancy rates were at 3.7% at year end, an average of all product types. The bad news was that net absorption was negative 1.6 million square feet in 2023, a net change of negative 7.6 million square feet. With the scheduled new construction deliveries and existing available space, it is improbable that we will be a positive net absorption in 2024. However, lease rates could easily see growth based on the low vacancy in 2024. Specific deliveries will be addressed in the Bulk Warehouse and New Construction sections of the report.

Investment market activity was significantly less in 2023 with just over 3.6 million square feet valued more than $227.2 million. There was a total of 8 large transactions, transacted in St. Louis County, St. Louis City and Madison County, Illinois. Look for a approximately the same number of significant transactions in 2024 as interest rates begin to stabilize. The weighted-average stabilized capitalization rate for all eight (8) sales was approximately 6.69%, up approximately 140 basis points from the previous year. The weighted-average price per square foot was $64.50/SF down $13.75/SF.

The Unemployment Rate in St. Louis at the end of 2023 was 3.0% down 280 basis points from the same time in 2022. That compares favorably to unemployment figures in the U.S. at 3.7%.

Total Inventory & Vacancy (Square Feet)



Information obtained from CoStar Group® 2023 Industrial Report

BULK WAREHOUSE

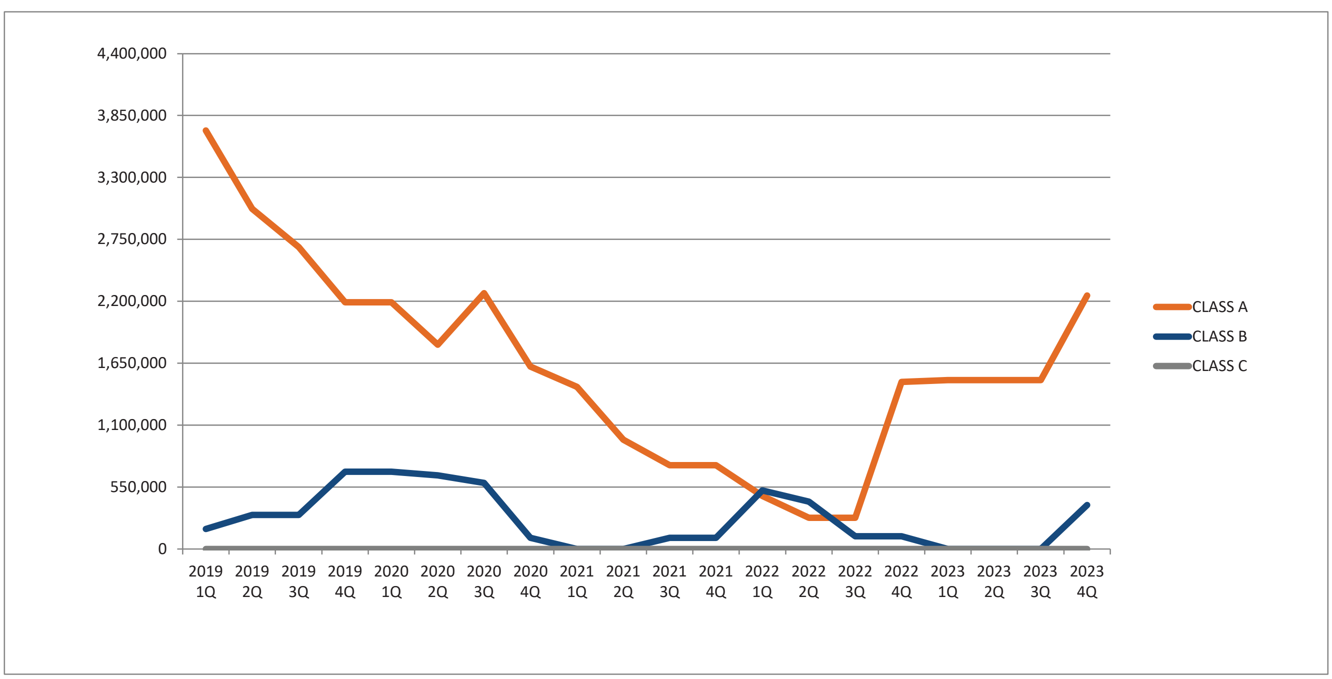
2023 is the first year in the last 10 years that we had negative net absorption. In 2023 new construction accounted for 50% of net absorption with existing bulk product accounting for the remaining 50%. In 2023, we delivered ten (10) new bulk buildings totaling over 1.6 million square feet. Of that amount, almost 90% were speculative. The benefit of tax abatement in new construction continued to affect the leasing of existing Class A vacancy, however, market demand for space below 100,000 square feet made up most of the gross absorption with only 5 new lease deals completed above 100,000 square feet. Supply chain problems have got a little better but are still problematic. Look for less construction starts in 2024 which will push vacancies lower. Anticipated net absorption in 2024 could remain negative, although in the 4th Quarter net absorption was over 600,000 square feet. With the inflation that we experienced in 2023 easing a bit, it's very unlikely we will see a significant drop until mid-2025. Labor supply will continue to be a problem and wages will continue to increase. Property values will remain steady to decreasing with a stiff interest rate that seems to be falling very slowly. There are no concessions in the market other than tools to bridge tenants from one property to another. Again, we saw some speculative construction starts in 2023, but see that decreasing significantly in 2024. Available options for users of 100,000 square feet or larger will remain in new construction, however, there are not a lot of options in that size range for existing buildings and even fewer for sale. There continues to be strong demand for user building acquisition although there are very few options available. Prices will continue to climb closer to replacement cost with fewer of these coveted buildings available. Capital for tenant improvements will continue to be given sparingly and only for the best credit tenants

*Jeffrey Hawley & Brandon Duncan represented **CW Investors** in the 126,400 SF lease renewal at 35 Corporate Woods Drive to **Challenge MFG**.*

unless accretive to value. Almost all institutional owners continue to be focused solely on occupancy levels with minimal investment for tenant improvements. Investors will have a very tough time finding opportunities to purchase based on higher interest rates and reluctant sellers that want to sell at lower cap rates. Capital is still abundant in the market, but higher interest rates will erode cash returns making it tougher and tougher to make value-add deals.

*Jeffrey Hawley & Brandon Duncan with **Block Hawley** along with **Fischer & Co.** represented **Performance Food Group** in the lease of a new 350,000 SF BTS facility located at 4800 N. Hanley Road from **Scannell Properties**.*

Bulk Warehouse Vacancy Trends



RENEWALS	
Grove Collaborative	138,550 SF
Acosta	130,131 SF
Challenge MFG	126,400 SF
Events Direct	87,650 SF
MSI	75,318 SF
John Louis Homes	64,000 SF

*Jeffrey Hawley & Brandon Duncan represented **DRA** in the 130,131 SF renewal to **Premium Retail/Acosta** at 2355 Ball Drive in Westport.*

NEW LEASES	
Spectrum	1,027,000 SF
Sam's Warehouse	370,500 SF
Tesla Expansion	343,718 SF
PFI	299,955 SF
Fletcher Reinhardt	184,800 SF
Meridian Medical	133,476 SF
International Foods	121,000 SF
Mitek	105,000 SF
Chadwell Supply	104,016 SF

NEW LEASES	
Snap One	100,011 SF
Gateway Studio	99,372 SF
Mitek	96,460 SF
Unlimited Foodwear	92,667 SF
Thermo Fisher	91,901 SF
Southern Hobby Dist.	79,921 SF
Smart Karton	74,564 SF
Richard's Supply	59,466 SF
Core & Main	46,300 SF

*Jeffrey Hawley & Brandon Duncan represented **Events Direct** in the 87,650 SF renewal located at 4142 Rider Trail North in Earth City.*

NEW GENERATION OFFICE WAREHOUSE

New Generation Office Warehouse has performed well in the previous 7 years with almost no vacancy and buildings that were developed and leased up quickly. In 2023 there was over 225,000 square feet of available space at the end of the year. Net absorption in 2023 was negative 169,000 square feet. There is activity in this product type, so we see most of that excess space being absorbed by the end of 2024. There were 72,754 square feet of new speculative construction delivered in 2023 with 26,000 square feet leased. There is no new construction scheduled to be delivered in 2024. In 2024 we see continued lease rate growth through 2024 based on limited choices and no new construction.

*Jeffrey Hawley represented **JRG Trust** in the lease of 62,919 SF to **Omni Services** located in 411 Fountain Lakes Boulevard in St. Charles, MO.*

*Jeffrey Hawley & Brandon Duncan represented **Stroco MFG** in the renewal of its lease of 51,110 SF **MFG** space at 628 Lambert Pointe Drive in Hazelwood, MO.*

MULTI-GENERATIONAL OFFICE WAREHOUSE

Multi-Generational Office Warehouse and Manufacturing space comprises older buildings that have been occupied by several tenants and/or owner-users that have functional obsolescence but are still usable spaces occupied by a wide variety of users. This product tends to have heavier existing infrastructure making it a good option for manufacturers. It is typically a lower cost alternative to the more modern product and makes up the majority of total industrial base in the St. Louis marketplace. In 2023, this product type remained ninety-five percent (95%) occupied with steady activity. With such a low vacancy, these buildings did perform well, however, absorption slowed as the number of these opportunities have been reduced. These buildings are almost exclusively located in infill locations, so they tend to be more attractive to users because of less locational attrition and are vacated less frequently than any of the other product types. Approximately 65 million square feet is located in St. Louis city, a great area for companies looking for lower rents and better value. Absorption in St. Louis County will continue at a steady pace driven by economic growth in 2024.

NEW CONSTRUCTION

It was a mediocre year for new construction, as developers responded to lower absorption and higher interest rates. St. Louis delivered 1.6 million square feet of new product, with approximately 90% of that being speculative product. U.S. Realty delivered three (3) new buildings totaling 416,300 square feet at Fenton Logistics Park. TriStar delivered one (1) new building totaling 256,000 square feet at Westport Commerce Center. Panattoni delivered one (1) new building totaling 455,900 square feet at Gateway Commerce Center. Greenstreet Development delivered two (2) new buildings totaling 400,000 square feet at River City Business Park. Bamboo Partners delivered one (1) building totaling 72,754 square feet at 270 Trade Center. Maune Development delivered one (1) building totaling 53,417 square feet and CAT5 delivered a 108,000 square foot building in Dardenne Prairie, MO.

CAT5 Commerce Center, a 108,000 SF was delivered in Dardenne Prairie in St. Charles County.

There are currently eight (8) buildings either under construction or delivered totaling approximately almost 2 million square feet in 2024.

***Greenstreet Development** delivered two (2) 200,000 SF distribution buildings in South St. Louis City.*

REGIONAL DISTRIBUTION

Activity in regional warehousing was slow in 2023 with only three (3) large new lease deals totaling 1,741,218 square feet, Tesla's expansion, Spectrum and Sam's Club. There were three (3) lease renewal transactions all by Geodis totaling 450,000 square feet. There was also one (1) investment sale, NorthPoint's acquisition of the 2,119,000 2-building P & G complex. Panattoni delivered Panattoni Gateway 2, a 455,900 square foot distribution building in the 4th quarter 2023. Lease rates increased to $4.25/SF NNN on tax-abated construction and approximately $3.50/SF NNN to $3.75/SF NNN on non-abated buildings. Look for lease rates to remain steady to increasing as no new product will be added in 2024.

***Spectrum** leased 1,027,000 SF at 21-27 Gateway Commerce Center Drive from **Exeter** in Gateway Commerce Center.*

***Tesla** expanded into 343,718SF at Gateway Tradeport 4 in Southern Illinois.*

INVESTMENT

2023 was another consecutive slow year for investment activity with only eight (8) major investment transactions totaling just over 3,600,000 square feet. Those transactions totaled more than $227.2 million in consideration or a weighted average of $64.50/SF and a weighted average going-in cap rate of 6.69%, up 90 basis points from the previous year.

Interest rates have begun to stabilize, slightly increasing cap rates in 2024. We believe that the level of sale activity will remain constant in 2023 as investors will have a difficult time finding opportunities.

*Jeffrey Hawley and Brandon Duncan represented **Millpark Investors** in the sale of 2315 Millpark Drive, a 92,500 SF building to **StratCap**.*

***Investcorp** purchased 1555 Page Industrial Boulevard, a 211,000 SF manufacturing/warehouse building from **Alpha Plastics**.*

***Cooper Bussman** sold its 256,100 SF facility to **Holtzman Properties** located in Ellisville, MO.*

***Altus Properties** sold its 129,523 SF building to **Westmount** located in Vinita Park, MO.*

ADDRESS	SQUARE FOOTAGE	OFFICE FINISH	SALE PRICE/ PRICE/SF	CAP RATE	DATE SOLD	PURCHASER	SELLER
6001 Premier Parkway St. Peters, MO	423,000 SF	23,000 SF	$42,500,000 $100.47/SF	5.56%	2/27/2023	FHR	Panattoni
2315 Millpark Drive Maryland Heights, MO	93,107 SF	15,000 SF	$20,000,000 $214.82/SF	5.92%	3/15/2023	StratCap	Millpark Partners
3049 & 3101 Westway Drive Edwardsville, IL	2,119,000 SF	20,000 SF	$102,000,000 $48.13/SF	7.21%	3/20/2023	NorthPoint	JP Morgan
3737 N. Broadway St. Louis, MO	132,524 SF	20,000 SF	$10,200,000 $76.98/SF	11.69%	6/30/2023	CRE Provender	PFG
1555 Page Industrial Drive St. Louis, MO	211,000 SF	20,000 SF	$13,000,000 $61.61/SF	6.50%	7/20/2023	C&E Inv Prop	Investcorp
1812-38 Walton Road Vanita Park, MO	129,523 SF	10,000 SF	$8,900,000 $68.71/SF	6.80%	7/21/2023	Westmount	Altus
9151 Latty Avenue Berkeley, MO	210,037 SF	5,000 SF	$11,813,304 $56.24/SF	6.30%	12/30/2023	Realty Income	Lazarus Realty
114 Old State Road Ellisville, MO	256,100 SF	75,000 SF	$18,780,000 $73.33/SF	7.25%	12/04/2023	Holtzman	Cooper Bussman

2024 TRENDS

- Slowing net absorption continues
- Strong lease rate growth and steady overall values
- Slowing investment activity and increasing cap rates
- Decreasing activity in both user-driven Build to Suits and Speculative Construction

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