

# MARKETBEAT

## St. Louis

### Industrial Q2 2019



#### ST. LOUIS INDUSTRIAL

##### Economic Indicators

	Q2 18	Q2 19	12-Month Forecast
St. Louis Employment*	1,383k	1,403k	▲
St. Louis Unemployment*	3.4%	3.6%	▲
U.S. Unemployment	3.9%	3.6%	▼

\*Q1 data above is quarterly averages based on January and February values.

##### Market Indicators (Overall, All Classes)

	Q2 18	Q2 19	12-Month Forecast
Vacancy	5.6%	5.8%	▼
Net Absorption (sf)	2.1M	2.1M	▲
Under Construction (sf)	5.8M	4.3M	▲
Average Asking Rent*	\$4.86	\$5.00	▲

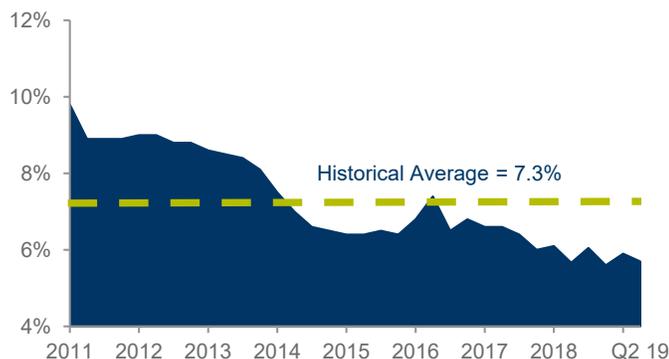
\*Rental rates reflect net asking \$psf/year

##### Overall Net Absorption/Overall Asking Rent

###### 4-QTR TRAILING AVERAGE



##### Overall Vacancy



## Economy

St. Louis economic fundamentals continued to show signs of resilience as the market ended the second quarter of 2019 with an unemployment rate of 3.6%, marking the ninth consecutive quarter below 4.0%. Seasonally adjusted employment added 20,000 jobs year-over-year despite major local consolidations resulting from merger and acquisition activity. The Federal Open Market Committee (FOMC) suspended further rate hikes and indicated that cuts would be considered if national economic indicators falter, indicating the economy remained on a steady course forward despite headwinds generated from the United States-China trade war.

## Market Overview

The industrial market in St. Louis ended the second quarter with overall vacancy at 5.8%, marking the fourth time since 2011 it has dropped below 6.0% and the second time this year. Despite heightened deliveries of new inventory in St. Louis, occupier demand continues to outpace development. Since the beginning of 2017, St. Louis has absorbed nearly 12.5 million square feet (msf) and delivered 11.4 msf over that same period. At the halfway point of the year, over 4.3 msf was under construction with roughly 42.6% of the projects being speculative. St. Louis is expected to deliver over 6.8 msf of new inventory in 2019 which would easily surpass the current record of 5.4 msf set in 2016.

On the heels of this elevated occupier demand and new development, overall triple net asking rents reached \$5.00 per square foot (psf) for the first time in tracked history. Year-over-year, rates grew nearly 2.9% and it's expected that this trend will continue through 2019.

## North County

In the second quarter, North County vacancy decreased by 160 basis points (bps) year-over-year to 7.1%. The submarket continued to track strong tenant demand, as PepsiCo occupied 269,000 square feet (sf) at 5400 North Hanley Road. The building is part of the 550-acre mix-used NorthPark development, which is located at the north-east corner of interstates 70 and 170, a park currently occupied by major occupiers such as Express Scripts, Schnucks, SKF and Staples.

Over the past year, nearly 2.3 msf of North County's 54.4-msf inventory has been delivered, a majority of which was the result of 1.2 msf in built-to-suit construction by Davidson Surface/Air and Mitek Industries. Even through elevated construction activity, demand for space in North County has vastly outpaced supply as roughly 3.7 msf of inventory has been absorbed since the start of 2018 indicating that runway remains for the right project. Year-to-date, demand for new inventory has played out in NorthPoint Development's Hazelwood Tradeport industrial park in a major way as availabilities, particularly for the mid-bulk spaces under 100,000 sf, continued to record strong leasing activity.

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### Metro East

During the second quarter, Hershey finished construction on its 300,000-sf expansion space at 100 Enterprise Drive, contributing to a significant amount of the submarket's quarter-end absorption of 257,000 sf. This activity drove vacancy 20 bps lower compared to the first quarter of 2019. Over the last five years, roughly 5.0 msf of inventory has been delivered within the Gateway and Lakeview industrial parks, which totaled 19.6 msf in inventory at quarter-end. Though rapid development of these parks has stoked concerns of oversupply, the parks themselves have recorded a healthy 3.6 msf of positive direct absorption over the same period. Despite clear demand for space in what is St. Louis's preeminent big-box market, vacancy is expected to increase over the next two quarters as new developers enter the market and World Wide Technology relocates from its current buildings at 3971 Lakeview Corporate Drive and 3951 Lakeview Corporate Drive, vacating roughly 1.7 msf. However, the company's expansion into over 2.0 msf within the adjacent build-to-suits will help off-set the pressure on short-term vacancy rates as ownership looks to backfill the newly vacant space. The move should also benefit the local economy as the firm plans to add as many as 500 new jobs to the Metro East area.

### St. Charles

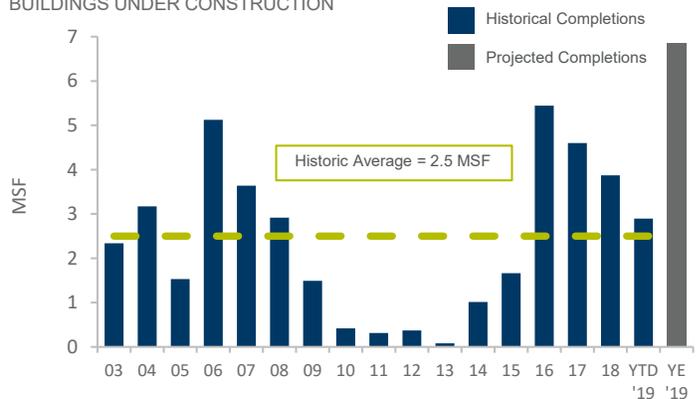
Driven by the delivery and occupancy of Amazon and Fedex built-to-suit projects, St. Charles led all submarkets in net absorption with 1.4 msf in the second quarter. Though absorption activity was primarily the result of these two large moves, the resulting economic impact will be tangible for the area. Fedex's 450,000-sf build-to-suit, to be used for package storage and distribution, marks the firm's second location within the submarket and is expected to bring over 50 jobs to the area and nearly 240 part-time employees. Amazon, on the other hand, opened its first Missouri fulfillment center in May, which is designed to provide St. Louis Prime customers with next-day shipping and eventually same-day shipping. The move adds further eCommerce presence to the St. Louis area and the operation is expected to add an estimated 1,500 full-time jobs to the region, bringing the firms total regional headcount to 4,000 employees.

### Outlook

- Overall triple net asking rates should continue to rise past the \$5.00 mark over the short-term as new spaces continue to deliver at a slower pace than occupier demand.
- Deliveries are expected to reach record breaking levels for 2019, as year-to-date deliveries have totaled roughly 2.9 msf with an additional 3.9 msf on track to complete by year-end, of which speculative construction accounts for over 42.6%.

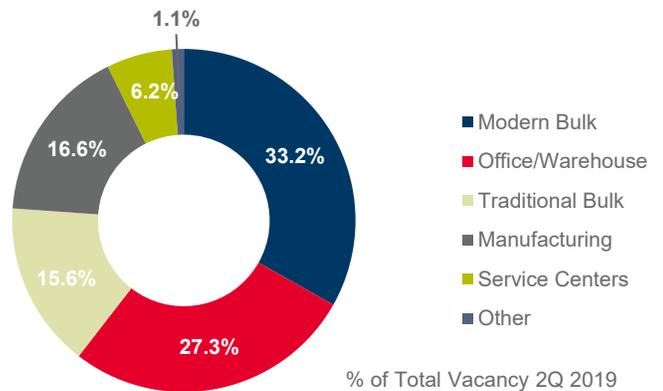
### New Supply

SPECULATIVE CONSTRUCTION ACCOUNTS FOR 42.6% OF CURRENT BUILDINGS UNDER CONSTRUCTION



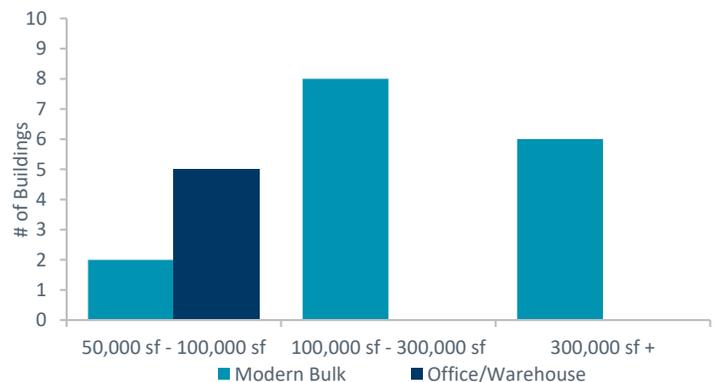
### Vacant Space by Product Type

OVERALL VACANCY IS 160 BPS BELOW THE 10-YEAR HISTORIC AVERAGE



### Blocks of Class A Contiguous Space

MORE SPACES ARE COMING AVAILABLE AS SPECULATIVE CONSTRUCTION IS COMPLETED



**MARKETBEAT**  
**St. Louis**  
**Industrial Q2 2019**



SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	TOTAL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	YTD CONSTRUCTION COMPLETIONS (SF)
City	1242	63,225,839	0	3,918,065	3,918,065	6.2%	-132,409	-127,018	47,000	0
Metro East	257	32,892,437	0	2,370,515	2,370,515	7.2%	256,800	256,800	3,256,452	300,000
Mid-County	558	23,391,124	0	719,146	719,146	3.1%	-32,598	-75,760	0	0
North County	526	54,412,414	0	3,856,988	3,856,988	7.1%	158,445	361,812	441,500	613,000
South County	458	20,291,091	91,833	1,185,264	1,277,097	5.8%	150,350	240,533	182,400	159,012
St. Charles County	462	32,020,625	0	1,165,838	1,165,838	3.6%	1,414,788	1,481,584	380,000	1,823,560
West County	531	22,322,592	8,575	994,127	1,002,702	4.5%	237,827	183,669	0	0
<b>ST. LOUIS METRO TOTALS</b>	<b>4034</b>	<b>248,556,122</b>	<b>100,408</b>	<b>14,209,943</b>	<b>14,310,351</b>	<b>5.8%</b>	<b>2,053,203</b>	<b>2,321,620</b>	<b>4,307,352</b>	<b>2,895,572</b>

\*Rental rates reflect asking \$psf/year

PRODUCT TYPE	TOTAL BLDGS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	TOTAL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	YTD CONSTRUCTION COMPLETIONS (SF)
Modern Bulk	113	45,182,475	0	4,747,868	4,747,868	10.5%	2,088,293	2,225,135	3,458,452	2,473,200
Traditional Bulk	253	35,262,027	0	2,238,222	2,238,222	6.3%	-318,316	-258,522	0	0
Office/Warehouse	2,811	97,710,000	63,433	3,843,738	3,907,171	3.9%	210,885	146,158	377,000	159,012
Other	85	2,665,737	28,400	131,988	160,388	5.0%	-28,400	-7,700	0	0
<b>Warehouse/Distribution</b>	<b>3,262</b>	<b>180,820,239</b>	<b>91,833</b>	<b>10,961,816</b>	<b>11,053,649</b>	<b>6.1%</b>	<b>1,952,462</b>	<b>2,105,071</b>	<b>3,835,452</b>	<b>2,632,212</b>
Manufacturing	477	54,969,130	0	2,372,217	2,372,217	4.3%	153,750	250,455	224,500	263,360
Office Service/Flex	295	12,766,753	8,575	875,910	884,485	6.9%	-53,009	-33,906	247,400	0
<b>ST. LOUIS METRO TOTALS</b>	<b>4034</b>	<b>248,556,122</b>	<b>100,408</b>	<b>14,209,943</b>	<b>14,310,351</b>	<b>5.8%</b>	<b>2,053,203</b>	<b>2,321,620</b>	<b>4,307,352</b>	<b>2,895,572</b>

**Key Lease Transactions Q2 2019**

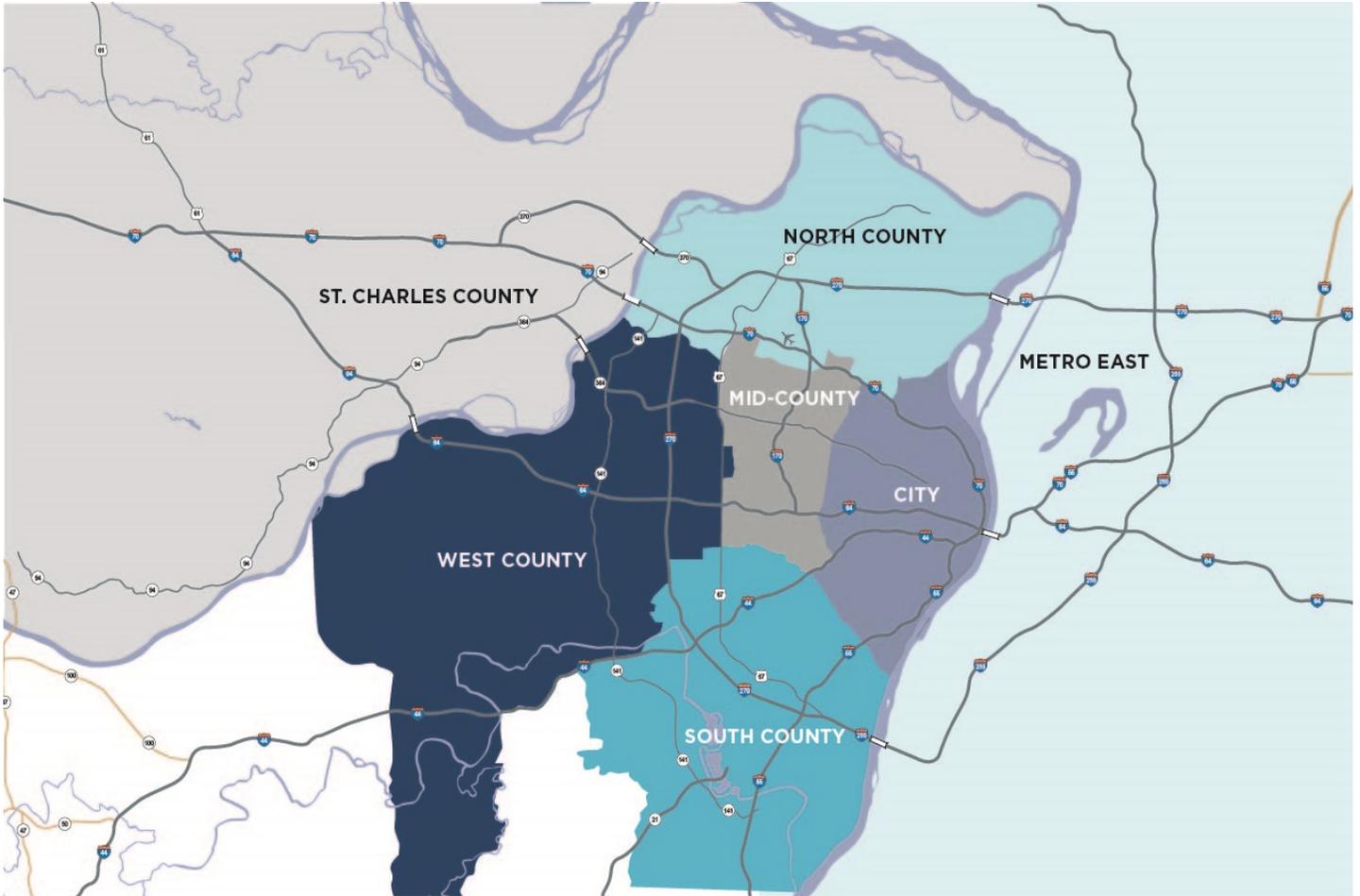
PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
5400 N. Hanley Rd.	268,877	PepsiCo	New Lease	Hazelwood
Fenton Logistics Parkway	182,400	1st Phorm	New Lease	Fenton
2355 Ball Dr.	130,131	Premium Retail Services	New Lease	Westport
13201-13221 Corporate Exchange Dr.	104,556	CircleLink	New Lease	Earth City

**Key Sales Transactions Q2 2019**

PROPERTY	SF	SELLER/BUYER	INVESTOR/USER	MARKET
Earth City Industrial Portfolio	649,692	Colony / Diamond Properties	Investor	Earth City
5148 N. Hanley Rd.	430,986	Cole Office & Ind REIT II / ILPT REIT	Investor	Hazelwood
1555 Page Industrial Blvd.	211,000	Gramercy (Blackstone) / Investcorp	Investor	Olivette
8212 Lackland Rd.	198,025	Malibu Midwest, LLC / Sealy & Company	Investor	Olivette

**INDUSTRIAL SUBMARKETS**

ST. LOUIS CITY / ST. LOUIS COUNTY / ST. CHARLES COUNTY / METRO EAST



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