

ST. LOUIS INDUSTRIAL MARKET

VACANCY AT RECORD LOWS; 5.8 MILLION SQUARE FEET UNDER CONSTRUCTION

The St. Louis industrial market was active in the third quarter of 2018, as 1.7 million square feet was absorbed. Overall vacancy decreased 60 basis points from the prior quarter to 4.7%, while average quoted rents increased from \$4.78/SF to \$4.79/SF. Various projects delivered 209,822 square feet of product to the market during the quarter, while projects under construction remained significant, with 5.8 million square feet of product planned for delivery.

The market displayed strong fundamentals in third-quarter 2018, as positive net absorption was realized in 18 out of the last 20 quarters, including over 2.3 million square feet during the past four quarters. Quoted rental rates increased by \$0.23/SF during the past year, as 2.8 million square feet of space delivered to the market. With market vacancy at record lows, the following major projects under construction will provide additional space options in a tight market:

Metro East: the two-building, 2.02 million-square-foot, build-to-suit project for World Wide Technology at Gateway Commerce Center and the 769,500-square-foot speculative Lakeview Building 5 development in the Lakeview Commerce Center

North County: the 493,000-square-foot Building III in Hazelwood Trade Port; the 380,000-square-foot building at 310 James South McDonnell Boulevard in Hazelwood; and the speculative, 252,000-square-foot Building II in Hazelwood TradePort

South County: the 168,766-square-foot Building III and the 160,246-square-foot Building IV in the Fenton Logistics Park

St. Charles County: the 855,080-square-foot Amazon Fulfillment Center and the 375,200-square-foot Premier 370 1001 building, both in the Premier 370 Park

St. Louis City: the 275,000-square-foot building at Russell Boulevard and Dekalb Street

Expect the North County, St. Charles County and Metro East submarkets to continue to flourish in 2018, building upon 3.8 million square feet, 1.9 million square feet and 1.1 million square feet of net absorption over the past two years.

CURRENT CONDITIONS

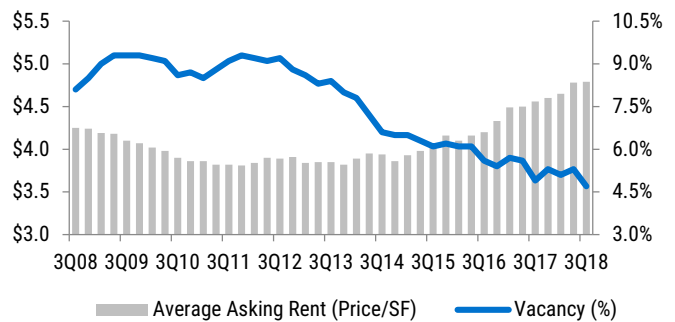
Asking rental rates have increased in 14 out of the past 15 quarters with positive net absorption occurring in 18 out of the past 20 quarters.

With vacancy at record lows and asking rental rates at record highs, the market should soon experience some relief as 5.8 million SF of product is currently under construction.

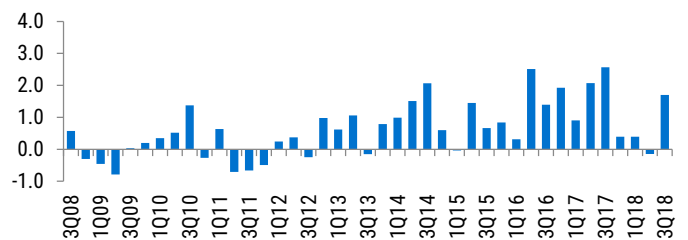
Hazelwood continues to flourish as 8950 Pershall Road trades for \$11.2 million and Hazelwood Logistics Center leases its last remaining spaces.

MARKET ANALYSIS

Asking Rent and Vacancy



Net Absorption (SF, Millions)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	265 MSF	264 MSF	263 MSF	↑
Vacancy Rate	4.7%	5.3%	4.9%	↔
Quarterly Net Absorption	1,698,199	-146,655	2,567,267	↑
Average Asking Rent	\$4.79	\$4.78	\$4.56	↑
Under Construction	5,848,752	3,804,552	4,102,852	↔
Deliveries	209,822	1,113,267	701,545	↑

HAZELWOOD CONTINUES TO FLOURISH WITH SIGNIFICANT LEASING AND SALES ACTIVITY

The North County submarket, and Hazelwood in particular, has enjoyed some of the metro's largest sales and leasing transaction volumes in the past year. In the third quarter of 2018, major sales and leasing news included an out-of-state real estate investment expanding its portfolio by acquiring a distribution facility in Hazelwood and Hazelwood Logistics Center leasing its remaining two blocks of space.

Broadstone Net Lease, Inc., a New York-based private real estate investment trust, purchased 8950 Pershall Road in Hazelwood, Missouri, from locally based Green Street St. Louis. The 242,630-square-foot industrial distribution center traded for \$11.2 million, or \$46/SF. The property is fully occupied by Booksource, a subsidiary of GL Group, Inc., a national book distributor. Green Street had performed extensive renovations to the property, which had been built in 1966, prior to the sale. Booksource currently occupies the space on a long-term net lease.

The Hazelwood Logistics Center industrial park is now fully occupied, as HLC VII and VIII leased its last remaining spaces. Chadwell Supply, a maintenance supplier, leased 54,140 square feet of the 108,270-square-foot, Class A, HLC VII located at 352 Hazelwood Logistics Center Drive. In addition, Land Air Express, a full-service expedited carrier in the U.S. and Canada, leased 30,390 square feet of the 107,390-square-foot, Class A, HLC VIII located at 11693 Missouri Bottom Road. Hazelwood Logistics Center is a 165-acre business and industrial park located adjacent to Lambert-St. Louis International Airport.

VACANCY SHOULD RANGE FROM 4.4% TO 5.1% FOR THE NEXT FOUR QUARTERS, AS A PORTION OF THE 5.8 MILLION SF OF PRODUCT UNDER CONSTRUCTION DELIVERS TO THE MARKET

The St. Louis industrial sector continued the year with significant volumes of leasing and sales activity. Out-of-town investors and high-level credit tenants are entering the market, while local users are renewing and expanding operations. The E-commerce and 3PL sectors continue to see higher-than-normal leasing activity. The North County submarket in particular has benefitted from 3.8 million square feet of net absorption during the past two years, with 1.1 million square feet currently under construction. Expect activity to remain strong in the St. Charles County submarket, where net absorption over the past two years has totaled 1.9 million square feet.

Positive net absorption has occurred in 18 out of the past 20 quarters for the overall St. Louis industrial market, with an impressive 2.8 million square feet of deliveries in the past year. Vacancy should range from 4.4% to 5.1% for the next four quarters, as a portion of the 5.8 million square feet of product currently under construction delivers to the market.

LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Nike	101 Interstate Dr	St. Charles County	New	247,000
Chadwell Supply	352 Hazelwood Logistics Center Dr	North County	New	54,140
RK Home Enterprises	3740-3780 Rider Trl S	North County	New	51,000
Mygrant Glass	4806 Trade Access Blvd	North County	New	43,000

SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
4015 Lakeview Corporate Dr	Metro East	\$44,178,000	\$43	1,017,780
8950 Pershall Rd	North County	\$11,212,000	\$46	242,630
12202 Missouri Bottom Rd	North County	\$4,000,000	\$44	90,530
13342 Lakefront Dr	North County	\$5,000,000	\$101	49,730
1600-1614 Headland Dr	South County	\$1,950,000	\$47	41,420
100-108 Hamilton Industrial Dr	St. Charles County	\$1,825,000	\$72	25,500

SUBMARKET STATISTICS

Submarket	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	WH/Dist Asking Rent (Price/SF)	R&D/Flex Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Central County	26,010,063	0	1.70%	65,567	250,168	\$4.54	\$8.91	\$4.89
Metro East	43,584,245	2,789,500	3.70%	198,331	-665,819	\$3.92	\$9.89	\$3.97
North County	50,544,794	1,125,000	8.10%	6,938	1,284,683	\$4.35	\$8.94	\$4.64
South County	17,704,013	339,012	4.10%	380,388	286,871	\$5.92	\$7.90	\$5.95
St. Charles County	29,089,022	1,300,240	3.20%	186,315	390,781	\$4.69	\$7.49	\$4.85
St. Louis City	72,536,278	275,000	4.80%	932,569	498,417	\$4.57	\$8.67	\$4.70
West County	25,397,201	20,000	4.60%	-71,909	-98,424	\$6.15	\$8.69	\$6.47
St. Louis Market	264,865,616	5,848,752	4.70%	1,698,199	1,946,677	\$4.59	\$8.68	\$4.79
Warehouse	249,043,080	5,798,752	4.50%	1,748,002	1,962,247	-	-	-
Flex	15,822,536	50,000	8.40%	-49,803	-15,570	-	-	-

SUBMARKET STATISTICS – SUBTYPE

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Total Asking Rent (Price/SF)
Warehouse/Distribution	24,224,025	0	1.60%	65,587	187,281	\$4.54
R&D/Flex	1,786,038	0	1.90%	-20	62,887	\$8.91
Central County	26,010,063	0	1.70%	65,567	250,168	\$4.89
Warehouse/Distribution	42,845,309	2,789,500	3.80%	198,331	-680,105	\$3.92
R&D/Flex	738,936	0	2.10%	0	14,286	\$9.89
Metro East	43,584,245	2,789,500	3.70%	198,331	-665,819	\$3.97
Warehouse/Distribution	47,551,724	1,125,000	7.40%	24,386	1,233,070	\$4.35
R&D/Flex	2,993,070	0	20.10%	-17,448	51,613	\$8.94
North County	50,544,794	1,125,000	8.10%	6,938	1,284,683	\$4.64
Warehouse/Distribution	16,764,062	339,012	4.20%	346,499	242,174	\$5.92
R&D/Flex	939,951	0	3.00%	33,889	44,697	\$7.90
South County	17,704,013	339,012	4.10%	380,388	286,871	\$5.95
Warehouse/Distribution	26,840,883	1,270,240	3.00%	260,722	441,313	\$4.69
R&D/Flex	2,248,139	30,000	5.60%	-74,407	-50,532	\$7.49
St. Charles County	29,089,022	1,300,240	3.20%	186,315	390,781	\$4.85
Warehouse/Distribution	70,564,622	275,000	4.60%	918,669	653,252	\$4.57
R&D/Flex	1,971,656	0	12.00%	13,900	-154,835	\$8.67
St. Louis City	72,536,278	275,000	4.80%	932,569	498,417	\$4.70
Warehouse/Distribution	20,252,455	0	4.40%	-66,192	-114,738	\$6.15
R&D/Flex	5,144,746	20,000	5.50%	-5,717	16,314	\$8.69
West County	25,397,201	20,000	4.60%	-71,909	-98,424	\$6.47

ECONOMIC CONDITIONS

The local economy continued to improve through August, with total employment growth of 0.8% and positive growth occurring in six out of ten industries, calculated on a 12-month percent change basis.

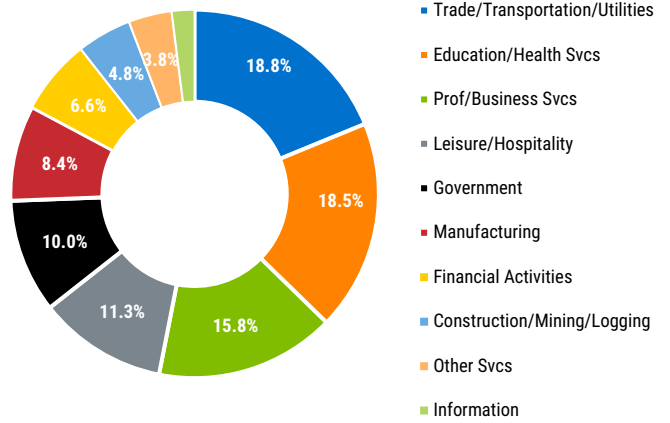
Payroll employment in St. Louis decreased 20 basis points compared to the prior year registering 0.8% in August 2018. The national average increased 10 basis points to 1.7%. Both indices have realized positive 12-month percent changes since August 2010.

The Consumer Price Index (CPI) for the United States increased 80 basis points to 2.7% over the past year. The Midwest Urban CPI increased 60 basis points to 2.1% in August 2018.

Unemployment in the United States increased 10 basis points to 3.9% in August, while unemployment in St. Louis decreased 20 basis points to 3.3% over the past quarter. Unemployment in St. Louis decreased 40 basis points from a year prior.

EMPLOYMENT BY INDUSTRY

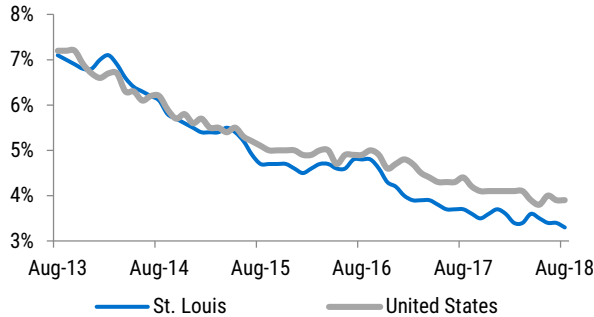
St. Louis, August 2018



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

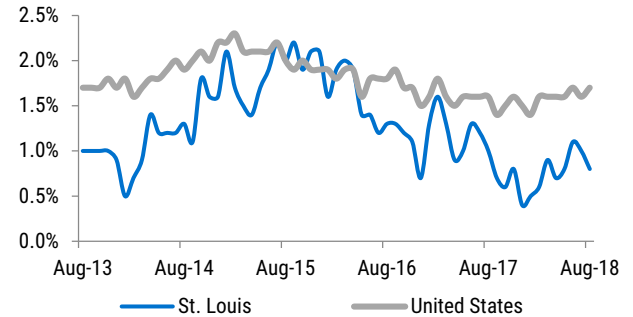
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

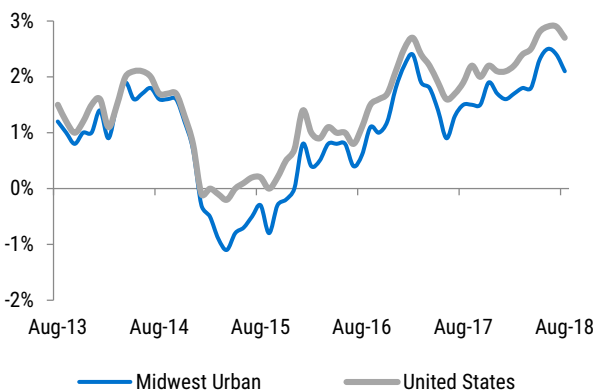
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

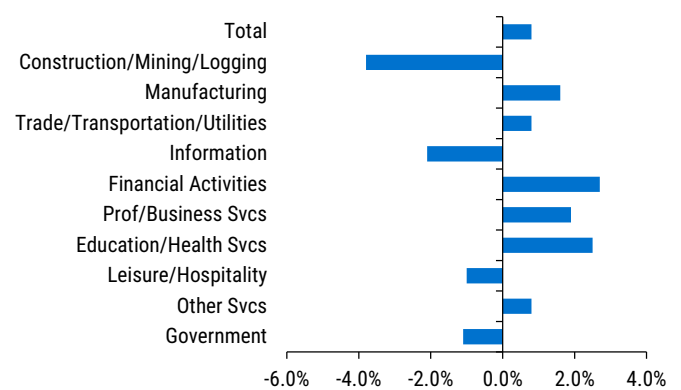
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

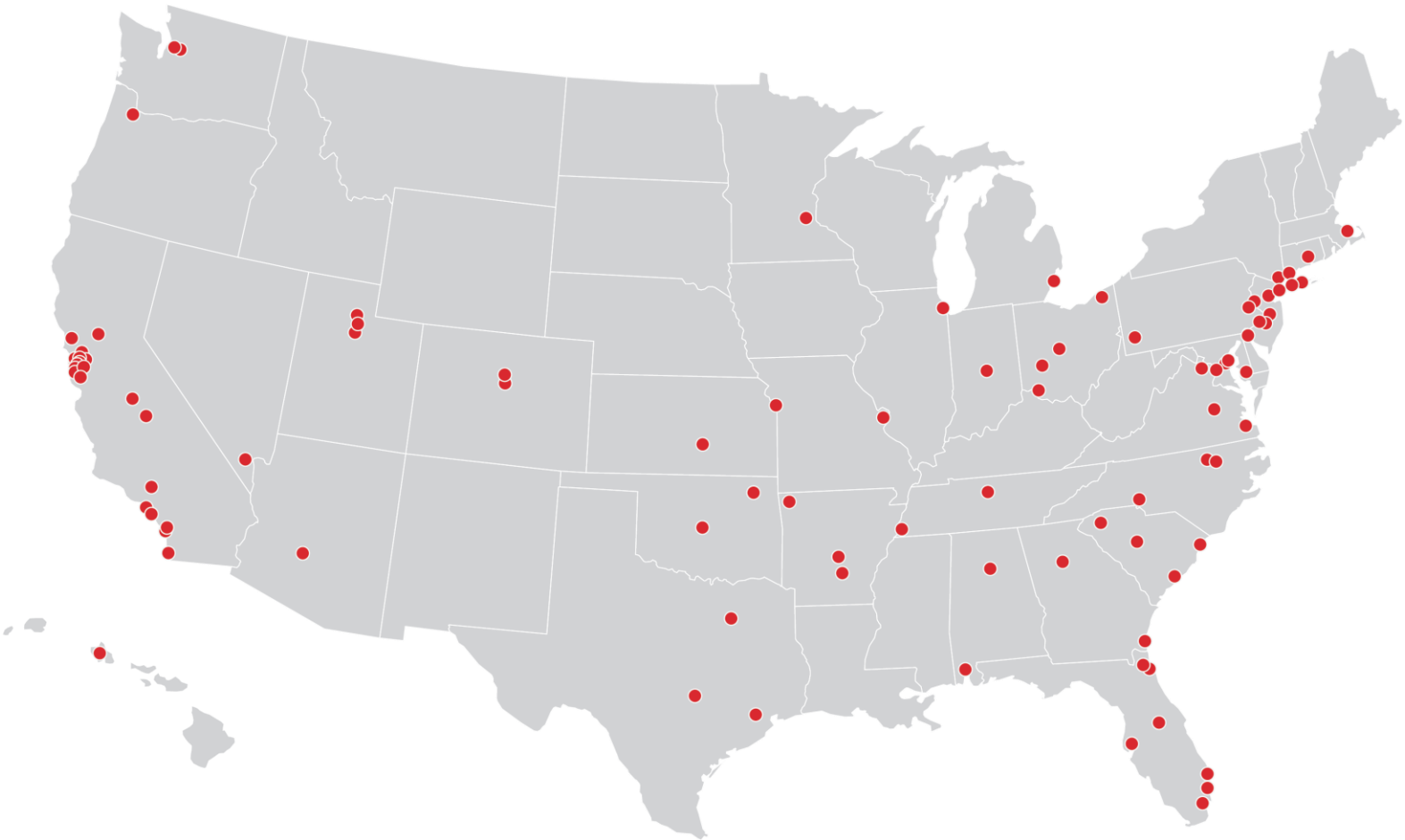
EMPLOYMENT GROWTH BY INDUSTRY

STL, Aug. 2018, 12-Month % Change, Not Seasonally Adj.



Source: U.S. Bureau of Labor Statistics

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