INDUSTRIAL MARKET REPORT

St. Louis Metropolitan Area

BLOCK
HAWLEY
A BLOCK REAL ESTATE SERVICES AFFILIATE

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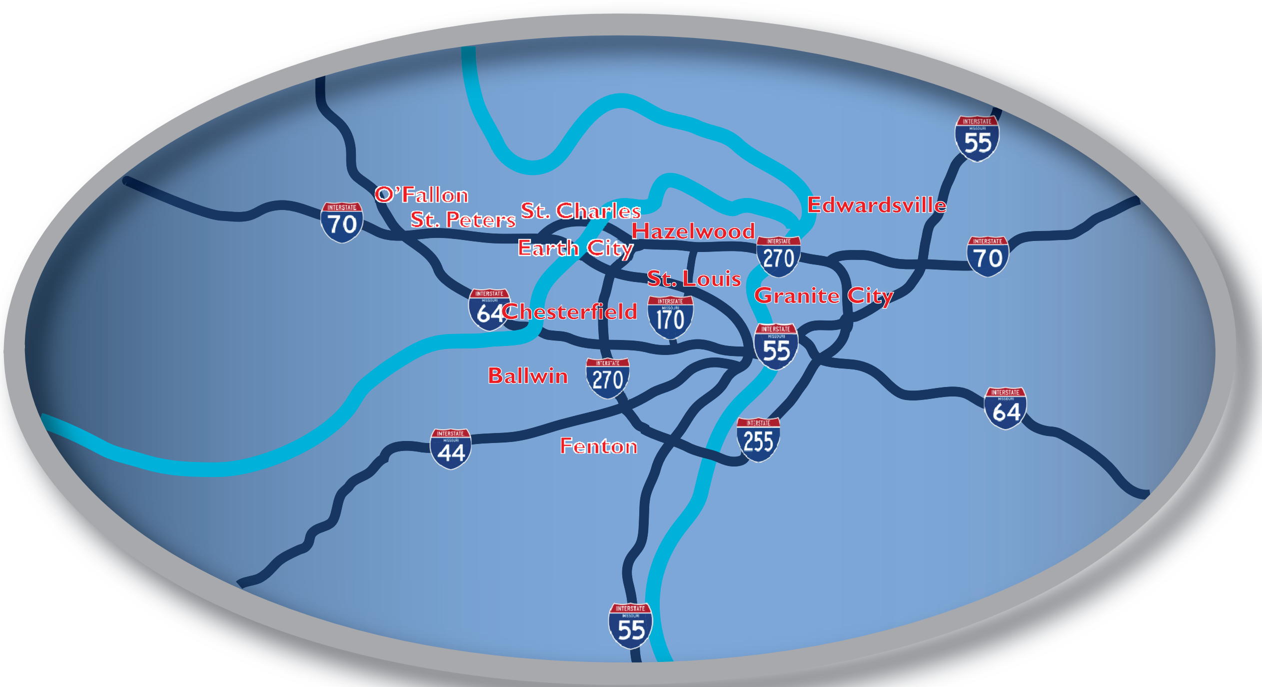
In 2008, we opened our operations in St. Louis under the name Block Hawley. With over 4,000,000 square feet of listed property and over 7,000,000 square feet under management in St. Louis, Block Hawley continues to be one of the largest service real estate firms in the St. Louis area.

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 2023 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

2022 picked up where we left off in 2021, until White House policy and residual COVID policy caused a massive breakdown in global supply chain. This exacerbated inflation, which in turn triggered the Federal Reserve Board to start an aggressive campaign to increase interest rates beginning in April. Unfortunately, too late to the dance, these increases from beginning of second quarter to the end of 2022 did little to slow down month over month inflation, settling at 7.1% at year-end 2022. Look for more increases in the prime rate until inflation gets back down to a range of 3% to 4%, or most likely, the economy slows even further, and we enter a traditional recession.

The biggest issue that sums up the state of the industrial market both in St. Louis and around the country is Labor. That shortage in the labor force has affected both reduced production of non-automated manufacturing output, and supply-chain to the point of altered distribution patterns for most companies. We saw vacancies drop to 2% or lower in most major cities, as all companies realized that they needed product in the cities where they wanted to sell their products as consumers were not willing to wait months for delivery of both raw and finished goods. Ships were stalled at ports for months with no one to off-load them and a shortage of truck drivers to get product on the road. Regardless of whether you want to blame White House policy, COVID restrictions or even Gen Z work habits, or the combination of a perfect storm of all these factors, the labor problem is here to stay with us for a while, which means, supply-chain is not getting fixed any time soon and inflation will be with us for the foreseeable future. All of these factors increase costs, which are being passed on to the consumer.

Look for some reduction in construction starts in 2023 as project cancellations begin to add up. The one positive effect this will have is a reduction in construction material pricing, which has not only skyrocketed over the last couple of years, but lead times for delivery are up to 6 months for items such as roofing materials and electrical switchgear. This should ease pricing and reduce the timing on delivery of building materials in 2023.

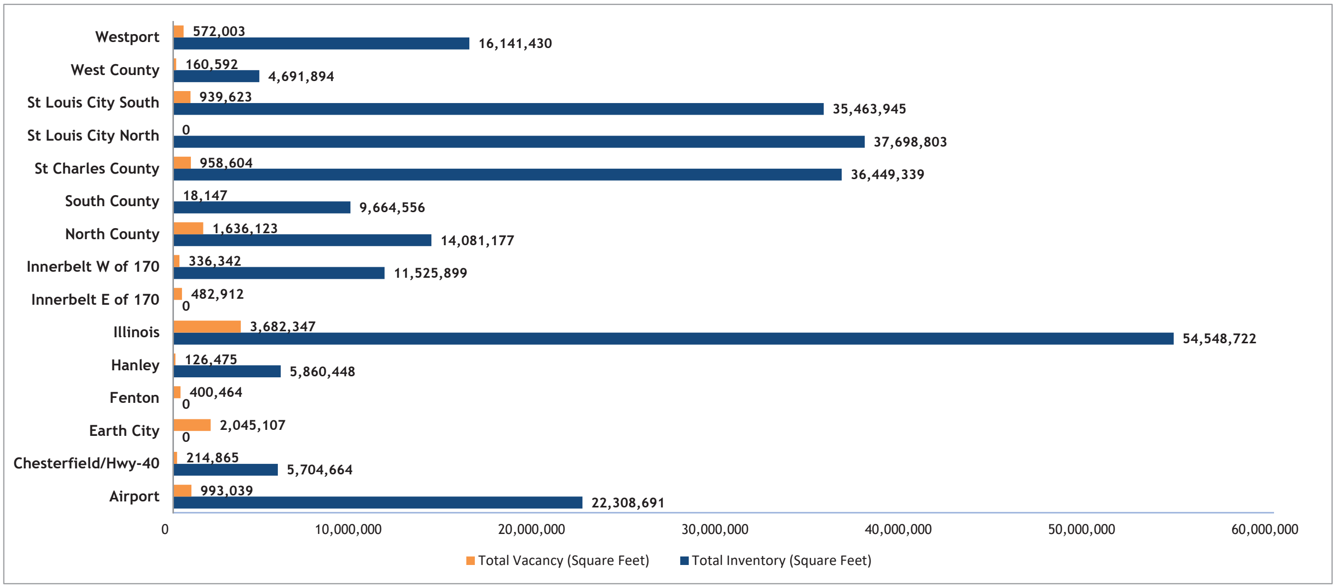
The great news for owners of industrial buildings, is that vacancies will stay low for the foreseeable future. There will be some negative absorption by larger companies, but demand for space has remained strong. Of the 6.2 million square feet of speculative construction that delivered in 2022, 4 million square feet has been absorbed. As stated above, increasing interest rates combined with high construction material costs, will slow speculative construction significantly in 2023.

Total new construction deliveries in 2022 were approximately 6.6 million square feet in nineteen (19) buildings. Overall vacancy rates were at 2.8% at year end, an average of all product types. The positive news was that net absorption was over 6 million square feet in 2022. With the scheduled new construction deliveries and existing available space, it is improbable that we will beat that net absorption in 2023. We will see growth in lease rates as developers try and keep up with rising development costs combined with low vacancy. Specific deliveries will be addressed in the Bulk Warehouse and New Construction sections of the report.

The investment market activity was significantly less in 2022 with just over 2 million square feet valued in excess of $163,450,000. There was a total of 6 large transactions in St. Louis County, St. Louis City and Madison County, Illinois. Look for a smaller number of significant transactions in 2023 as higher interest rates hamper investment sales. The weighted-average stabilized capitalization rate for all six (6) sales was approximately 5.28%, down approximately 10 basis points from the previous year. The weighted-average price per square foot was $78.25/SF down almost $3.00/SF.

The Unemployment Rate in St. Louis at the end of 2022 was 5.8% up 210 basis points from the same time in 2021. That compares unfavorably to unemployment figures in the U.S. at 3.5%.

Total Inventory & Vacancy (Square Feet)



Information obtained from CoStar Group® 2022 Industrial Report

BULK WAREHOUSE

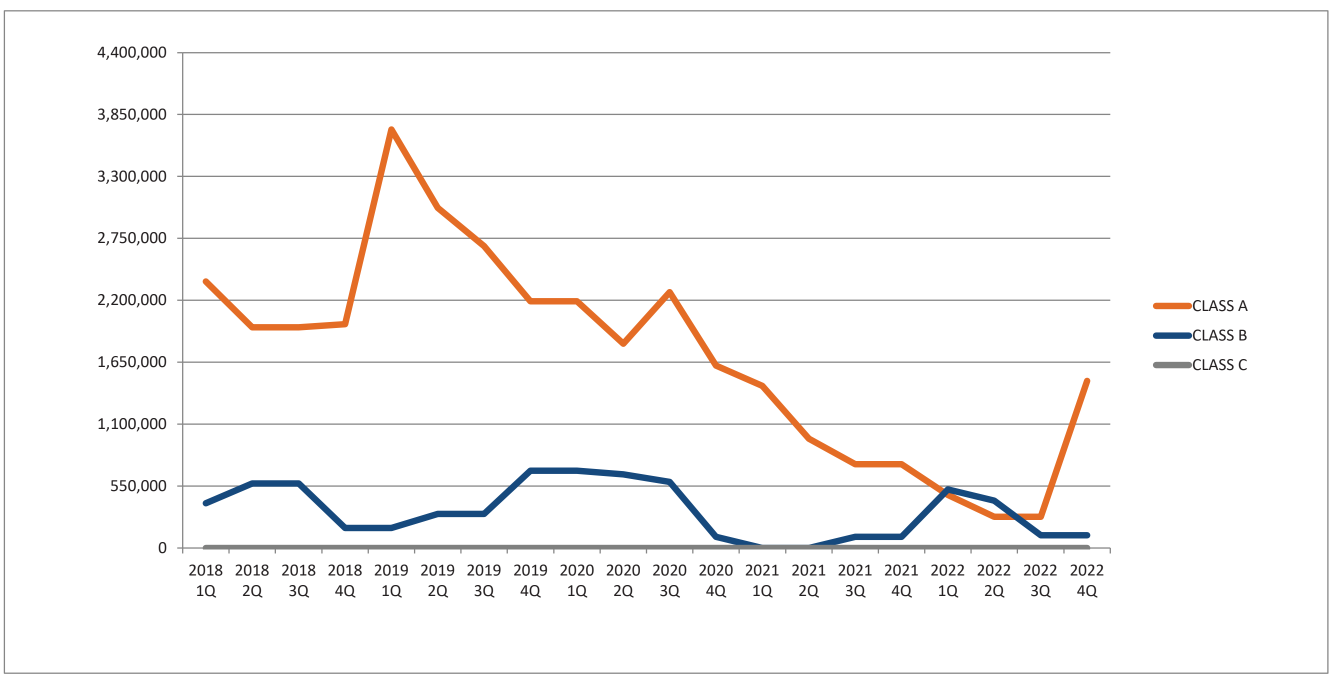
*Jeff Hawley and Brandon Duncan of **Block Hawley** represented **Ronnoco Coffee** in their lease of 66,000 SF at 5485 Brown Avenue.*

This is the 10th consecutive year of strong bulk warehouse net absorption. In 2022 new construction accounted for 65% of net absorption with existing bulk product accounting for the remaining 35%. In 2022, we delivered nineteen (19) new bulk buildings totaling over 6.6 million square feet. Of the 6 million square feet of net absorption, approximately 4.2 million square feet was in new construction, leaving approximately 1.8 million square feet of net absorption in existing product. The benefit of tax abatement in new construction continued to affect the leasing of existing Class A vacancy, however, market demand was consistent throughout the entire year and with fewer options and immediate need, existing buildings performed well. Supply chain problems continued to affect distribution patterns, creating strong leasing demand in this product type. Look for less construction starts in 2023 that will continue to push vacancies lower, at least until we enter a traditional recession. Anticipated net absorption in 2023 will continue lower based on a lack of available property even though we are beginning to see large corporations shed space. With the inflation that we experienced in 2022, and its very unlikely easing until mid-2023, problems will continue to appear through the year as the mismanagement of the economy will become more apparent. Labor supply will continue to be a problem and wages will increase. Property values will remain steady to decreasing with a stiff interest rate that will continue to rise through at least mid-year. There are no concessions in the market other than tools to bridge tenants from one property to another. Again, we saw significant speculative construction starts in 2022. That will decreasing significantly in 2023. 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 product and certainly not 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 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 increasing interest rates and reluctant sellers that want to sell at tower cap rates. Capital is still abundant in the market, but higher interest rates will erode cash returns making it tougher and tougher as cap rates have started to decompress.

Jeff Hawley and Brandon Duncan of ***Block Hawley*** *represented* ***Basilisk Aquisitions*** *in the lease of 110,240 SF at 13679 Rider Train in Earth City, MO.*

Bulk Warehouse Vacancy Trends



RENEWALS	
P&G	2,119,452 SF
Royal Canin	674,752 SF
Walgreens	500,000 SF
Quiet Logistics	421,800 SF
Vijon	386,922 SF
Almo Distribution	210,000 SF
Materialogic	168,380 SF
RB MFG	161,280 SF
Courtesy Coffee	75,000 SF

*Jeff Hawley and Brandon Duncan of **Block Hawley** represented **Planned Industrial LLC** in the sale of 900,000 SF to **Park 70 Group LLC**.*

NEW LEASES	
Tesla	666,468 SF
Spectrum	624,346 SF
Trane USA	423,000 SF
Imperial Bag	409,014 SF
Lawn & Garden	248,635 SF
AB Gateway	210,000 SF
Tempur Sealy	194,615 SF
Villa Lighting	194,602 SF
Pretium Packaging	178,128 SF
Marson Foods	147,139 SF
Koch Air	144,824 SF
GPI	143,600 SF
Kasey Paige	138,736 SF
Chick-Fil-A	132,499 SF
Orizon	119,011 SF

*Jeff Hawley and Brandon Duncan of **Block Hawley** represented **Linpage Investors LLC** in the lease renewal of **Courtesy Group LLC**, in 75,000 SF.*

NEW GENERATION OFFICE WAREHOUSE

New Generation Office Warehouse performed well in 2022 with over 60,000 square feet of net absorption. With less than 1% of available space, there is nothing to absorb in 2023. There was no new construction delivered in 2022. With only one remaining vacancy in this product type and no new product being delivered, look for further reductions in vacancy in 2023. Delivery of 2315 Millpark Drive, a 92,450 square feet building, was 100% leased before delivery in December. Lease rates are currently up over $1.50/SF over 2021. Users will have very limited choices.

Jeff Hawley and Brandon Duncan of ***Block Hawley*** *represented* ***Millpark Investors*** *in the lease of 70,000 SF to* ***Wesco Distribution*** *and* ***Tierpoint****.*

Jeff Hawley and Brandon Duncan represented ***Window World*** *in the purchase of 3600 Rider Trail, a 49,950 SF Office Warehouse Building.*

MULTI-GENERATIONAL OFFICE WAREHOUSE

Multi-Generational Office Warehouse and Manufacturing space comprises older buildings that have been occupied by a number of 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 2021, 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 2023.

NEW CONSTRUCTION

It was a great year for new construction, as developers responded to ultra-low vacancy and strong demand. A continuation of 2021, St. Louis delivered 6.6 million square feet of new product, with approximately 5.9 million square feet being speculative. NorthPoint delivered three (3) new buildings totaling 725,000 square feet at Riverport Business Park. TriStar delivered three (3) new buildings totaling 606,590 square feet at Westport Commerce Center. Panattoni delivered three (3) new buildings totaling 603,908 square feet at Aviator Business Park. NorthPoint also delivered three (3) new buildings totaling 1,429,976 square feet at Hazelwood Tradeport. Across the river in Illinois, they also delivered 1,010,000 square feet at Gateway Tradeport. Exeter completed their second building at Gateway Commerce Center, an 801,836 square foot cross-dock building. Panattoni also delivered the first of their two buildings in Gateway Commerce Center, a speculative 376,000 square foot cross-dock building. Panattoni delivered 789,000 square feet in two buildings at Premier 370 Center. U.S. Capital delivered two (2) new buildings in Fenton totaling approximately 275,000 square feet.

Jeff Hawley and Brandon Duncan represented ***RBJ Industrial Properties*** *for a new 30,000 SF Building in Fenton, MO.*

There are currently six (6) buildings under construction which will deliver in the first couple of quarters of 2023, almost 1.5 million square feet of it, speculative construction. Additional buildings will be started later in the year.

Panattoni *completed 6001 & 7001 Premier Parkway, 789,000 SF in two Buildings in Premier 370 located in St. Peters, MO.*

REGIONAL DISTRIBUTION

Activity in regional warehousing was strong again in 2022 with four (4) large new lease deals totaling 1,749,449 square feet, including the 210,000 square foot Inbev BTS, Tesla, Spectrum and Lawn & Garden. There were four (4) lease renewal transactions, including Geodis, P& G, Royal Canin and Walgreens totaling almost 4,000,000 square feet. There was also one (1) investment sale, the 210,000 square foot AB InBev facility. NorthPoint delivered Gateway Tradeport 4, a 1,010,000 square foot distribution building in the 3rd quarter 2022. Lease rates increased to $3.75/SF NNN on tax-abated construction and approximately $3.35/SF NNN to $3.55/SF NNN on non-abated buildings. Look for lease rates to remain steady to decreasing as over 4 million square feet of new construction will be available in 2023.

***Exeter** leased 674,752 SF to **Royal Canin** at 5715 Inner Park Drive in Gateway Commerce Center.*

***Plymouth REIT** renewed **Geodis in** its 624,159 SF Building located at 349 Gateway Commerce Center Drive.*

***NorthPoint Properties** leased 666,468 SF to **Tesla** in GTP 4, their new 1,010,000 SF Building, located in Gateway Tradeport.*

INVESTMENT

2022 was a mediocre year compared to the previous year for investment activity with only six (6) major investment transactions totaling over 2,000,000 square feet. Those transactions totaled more than $154,450,000 in consideration or a weighted average of $78.25/SF and a weighted average going-in cap rate of 5.8%, approximately the same from the previous year.

Aggressive interest rate increases will significantly increase cap rates leading to a decompression of capitalization rates in 2023. We believe that the level of sale activity will remain constant in 2023 as investors will have a difficult time finding opportunities.

*Jeff Hawley and Brandon Duncan of **Block Hawley** represented **Prom Motor Hotel, Inc**. in the sale of its 76,485 SF Building in Overland to **Plymouth REIT**.*

***Transwestern** sold its 500,000 SF Building in Gateway Commerce Center to **Miesto Group**.*

***Opus Development** sold its 111,002 SF Building in Earth City to **CAPS**.*

***Sealy & Co**. purchased 769,871 SF in Earth City and Fenton from **New York Life**.*

ADDRESS	SQUARE FOOTAGE	OFFICE FINISH	SALE PRICE/ PRICE/SF	CAP RATE	DATE SOLD	PURCHASER	SELLER
I-170 Tech Center 1901-1939 Belt Way Drive Overland, MO	76,485 SF	90%	$8,450,000 $110.48/SF	5.63%	4/6/2022	Plymouth	Prom Motor Hotel
2211-31 Hitzert Court Fenton, MO 13145-95 Lakefront Drive Earth City, MO	769,871 SF	5%	$62,000,000 $80.53/SF	4.6%	5/24/2022	Sealy & Co	New York Life
121 Enterprise Drive Edwardsville, IL	210,000 SF	5%	$25,000,000 $119.05/SF	4.57%	7/6/2022	Galaxy Properties	TriStar Properties
10-20 Athletic Drive Earth City, MO	111,002 SF	5%	$15,000,000 $135.13/SF	5%	9/8/2022	Kelb, Inc.	3930 Earth City LLC
1067-1151 N.Warson Road Creve Coeur, MO 4 Buildings	317,109 SF	6%	$21,000,000 $66.22/SF	6.12%	9/15/2022	Clovelly LLC	Trigate Properties
28 Gateway Commerce Center Edwardsville, IL	500,000 SF	1%	$32,000,000 $64.00/SF	5.36%	12/15/2022	Miesto Group	Transwestern

2023 TRENDS

- Decreasing net absorption
- Strong lease rate growth and increase in 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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