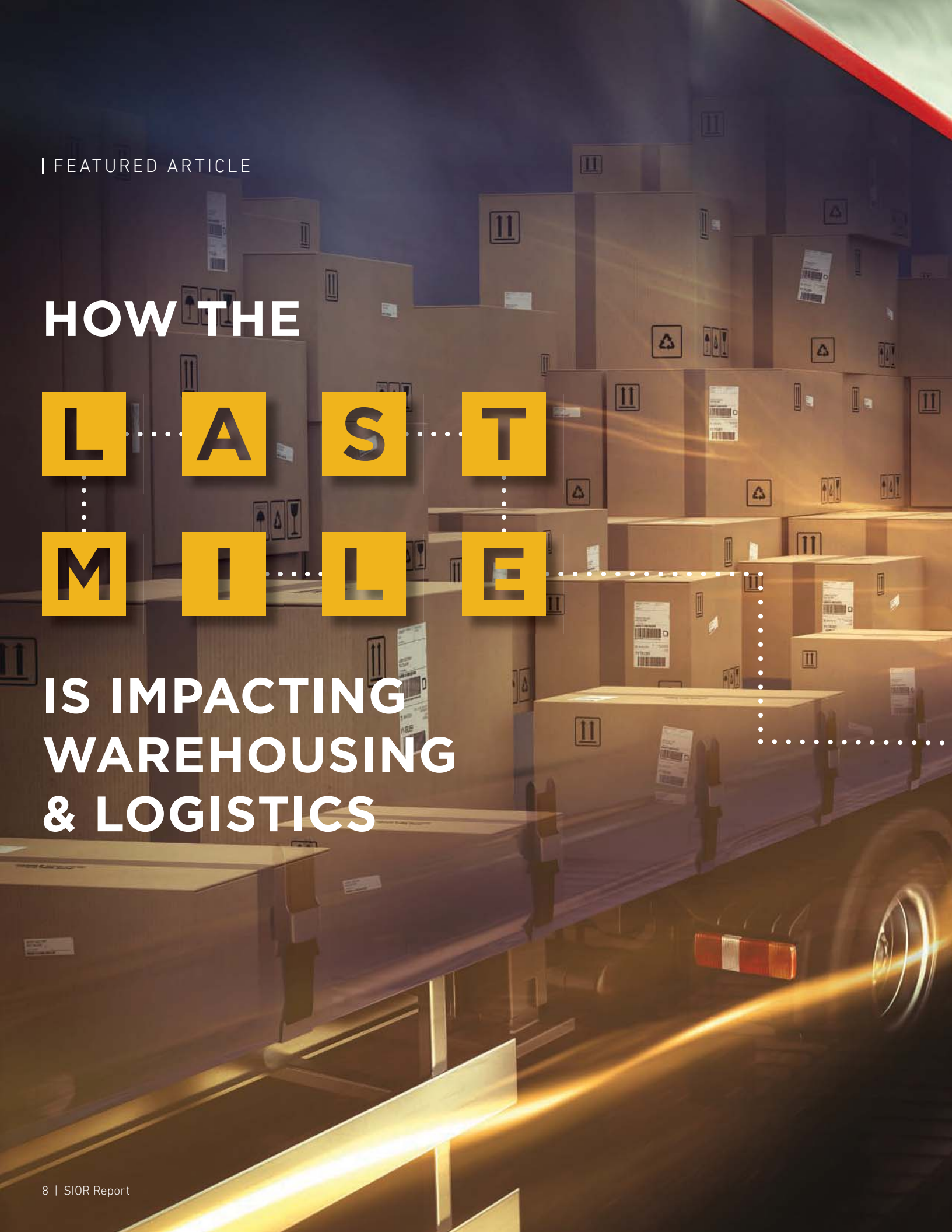

HOW THE LAST MILE IS IMPACTING WAREHOUSING & LOGISTICS

BY
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Getting to that last mile site is not as easy as it seems. Lack of facilities in denser residential areas is a problem, and competition for those locations has begun to heat up. Still, e-commerce companies, 3PLs and suppliers are making the most of what is out there, adopting existing structures whenever possible, because geography is the key factor in delivering goods to consumers as quickly as promised.

The term "last mile" usually refers to the last leg of the delivery component in the supply chain, or how to get boxes to the consumer. This has always been a problematic concept, because the last mile is the most expensive leg in the supply chain and e-commerce has only made the situation worse, because of the need for on-time or over-night delivery.

The current solution is to bring smaller logistic or delivery centers closer to the population core. This not only works for e-commerce companies such as Amazon, but also for 3PLs (third-party logistics companies) and even product suppliers that need to get closer to merchandisers.

Depending on the metro, the trend line to last mile logistic centers began about a decade ago, and it has changed the dynamic in the distribution sector. What a company requires in terms of the last mile is far different than what it might need for a huge fulfillment center.

The most obvious change is size: a fulfillment center might require 1 million square feet of space, but a last mile shop might only be 40,000 square feet. Secondly, location is inside the city, not on the far periphery of the metro. Finally, because geography is so important, the last mile user will take just about any space that it can find and adapt, including old retail buildings.

For the industrial broker or agent, this is a different ballgame altogether.

Pat Feeney, SIOR, a senior vice president for CBRE in Phoenix, explains: "When the average distributor comes to look at a city like Phoenix, its agent requests a summary of available properties. The request will note, 'looking for something that is a minimum of 240 feet deep and no deeper than 360 feet deep, a 32-foot clear, secured trailer parking area, X number of car parks, etc.' Then we show the available lists of properties. The agent for the distributor short lists, tours and picks a building primarily based on the analysis of the existing product. When the last mile user comes to town, it doesn't do that. The agent for the last mile user says, 'I want you to show me the available buildings that are in this specific geographic area.' The agent has done his research based upon e-commerce customers and uses an aerial map that shows where all of these customers are located. The agent pinpoints an area that is right in the center of those customers and says, 'you need to find me a building in this area.'"

The request is so unique, Feeney cautions, an untrained broker might disregard the specifics, thinking that's an older industrial area, the clear heights are only between 16 and 24 feet, the building has more columns than a modern building, there is limited trailer storage, and car parking is somewhat tight. That's backward thinking, because geography is more important than shape and size of an existing building. Indeed, the last mile user might take an abandoned retail building such as a closed K-mart, which has 18- to 24-foot clear, a ton of parking, existing heating and air conditioning, and an area that can be secured for trailers and trucks.

"It's a different tour that is organized for the last mile person compared to the person that is not concerned about last mile deliveries," says Feeney.

The last mile requests are different, because these centers can go in locations

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where one doesn't typically see large distribution facilities. Big warehouses take up large land tracts, and the price of the dirt in urban areas is so much more expensive that development doesn't make economical sense, says Christen Hatfield, an associate member of SIOR and a development associate at VIGAVI, an industrial developer in Houston. "The last mile will go into places that are smaller, where you can only handle 10 or 15 trucks at one time instead of 80."

Last mile companies prefer dock-high, whether it is front-load, rear-load or cross-dock, says Hatfield. "It isn't size sensitive as long as they can get their trucks in and out easily. It doesn't necessarily have to be an existing building. We just built a small, 40,000-square-foot, dock-high distribution facility for two suppliers, Emser Tile and Red Bull. This was a last mile location, right in the center of Southeast Houston, in close proximity to hundreds of rooftops."

When Amazon came to Houston, it took 2 million square feet in three facilities, says Hatfield. "The only one of those that would be considered last mile is in Northwest Houston. The remaining facilities are fulfillment centers."

The last mile has become so important there is a rush to find good properties, and that has led to a substantial increase in pricing.

Not only are the dotcoms and retailers looking for last mile sites, but also the 3PLs and trucking companies that do less-than-truck-load (LTL trucking), observes John Culbertson, SIOR, managing partner at Cardinal Partners, Charlotte, N.C. "Last mile are typically the older, Class-B, in-town distribution buildings that are close to the retail areas where people shop. Would these tenants like to have large modern buildings to work from? Sure, but those buildings are new and far from the malls. Many of the last mile tenants are scrambling to take what they can get to have locations within close proximity to the delivery locations that they need to get to for same-day delivery."

Culberston reports his company has a large portfolio of last mile properties, adding "we have seen rates increase, depending on the market, about 20 percent over the last three years. Our vacancy is way down."

Class B, now very desirable, is generally existing product close to older suburban areas and infill, Culbertson adds. "We have a 25-year-old building in Charlotte that's 120,000 square feet. Two tenants are in there, one of which is a manufacturer and the other is a trucking company that does 3PL type of work. Traditionally, we might have leased this building for $2 a square foot, but we were able to get 15 percent higher rates than that."

How desperate are companies for last mile properties? Even buildings that were built for manufacturing with poor distribution specifications are being leased by

trucking companies. The result is that drivers who are used to getting into a distribution building, unloading and getting down the road quickly are cueing-up to get to only a few docks that are available.

"One building that is located in a quickly gentrifying location of Charlotte called South End has truck drivers stopping soccer moms and BMWs while directing traffic to allow trailer circulation," says Culbertson. "Even FedEx and UPS are scrambling for Class B in-town hubs."

What's happening in Charlotte is not happening everywhere. Cincinnati, which probably has more Amazon distribution square feet per capita than anywhere else in America and is home to Amazon's first Prime Air Hub, has seen little last mile business.

"Our downtown is not as dense, our city is not as spread out as some of the larger cities in the country, and the condo market hasn't taken off in downtown Cincinnati," reports Norm Khoury, SIOR, a senior vice president with Colliers International in Cincinnati. "There hasn't been overwhelming demand for 'urban warehousing' like you would find in Chicago, Seattle or New York City, but last mile of the supply chain represents that final leg of the delivery process to the consumer's home or business, so it's definitely a factor in the industrial market."

Cincinnati and Northern Kentucky combine to form one large metro, and Amazon has five large warehouses across the Ohio River in Kentucky, says Khoury. In addition, the company has plans for another 4.6 million square feet of buildings in the region. It has purchased 900 acres at the Cincinnati/Northern Kentucky Airport for its 3.3-million-square-foot Prime Air Hub and recently purchased an additional 200 acres of adjacent, privately owned land.

"NO ONE HAS FIGURED OUT THE FOOLPROOF FORMULA THAT WILL WORK EVERY TIME IN EVERY CITY."

North of Cincinnati, Amazon operates a "just in time" facility in 80,000 square feet of leased space in Fairfield. Further north along I-75 in Monroe, a 1.3-million-square-foot facility is currently under construction for Amazon, well positioned to service the northern Cincinnati suburbs and Dayton, 20 miles to the north.

"We will be surrounded by Amazon," says Khoury.

Currently, Amazon runs last mile from its Cincinnati/Northern Kentucky distribution facilities.

While that might seem odd, last mile logistics is a fairly new phenomenon, and solutions are still somewhat experimental.

"It is the great beta test," says Geoffrey Kassselman, SIOR, an executive managing director at Newmark Knight Frank in Chicago. "Nobody has yet to completely demystify the last mile, bricks-and-mortar challenge. Consequently, there is a whole bunch of experiments going on as to what is working and what isn't, but the point is still the same, which is you and I as consumers have become conditioned to believe that we can get almost anything that same day if we order it early enough, or the next day in a worst-case scenario."

"Fulfillment is clearly looking at the last mile as a high cost, hard to solve phenomena, and consequently people are trying all kinds of different places, sizes, locations and protocols to figure out what is working the best," says Kasselman. "And the jury is out so far."

He uses this example: "I live in Northbrook, Ill., which boasts a mall with four mega-anchors on each corner, but those four big boxes are struggling, with few if any retail big-box operators to backfill them if they were to go dark. What if you can take those mega-spaces, which tend to be multi-story and somewhat warehouse-like with truck docks and high ceilings and bring them to a series of last mile-related uses: fulfillment, will call (pick-up), 3-D printing and returns. All those uses can be accommodated in an old Macy's or Sears that might be at the end of that mall. Plus, with that big flat roof, one day when drone deliveries are approved, they can literally take off and fly to my home and return safely. That is creative, adoptive re-use aimed at solving the last mile."

Kasselman concludes, in regard to the last mile, "no one has figured out the foolproof formula that will work every time in every city. There are simply too many unique physical barriers and various urban logistics challenges to overcome. Thus far, this has prevented scaled last mile solutions from being rolled out on a truly global basis."

THE LAST MILE IS AN EXPENSIVE JOURNEY IN THE UK

The last mile in the United Kingdom is cluttered with residential blocks and old buildings. If you are a logistics developer and lucky enough to find a dirt patch amidst the crowded urbanity, the cost of that ground is dear and getting dearer. The Greater London market, which is the population and economic heart of the country, has been growing so fast that it has been losing 250 acres of logistics and distribution land to residential every year for the last 10 years, says Andrew Smith, SIOR, an industrial specialist and partner with Carter Jonas LLP in London. "Our space is constrained and the price of land is being pushed up very strongly because it competes with residential space. Politics in this country is more focused on houses rather than jobs."

London is the largest and most mature e-commerce market in the U.K. and, as such, has the biggest urban-logistics demand. Referring to London in terms of zones, Smith says, you won't find any last mile sites in zones one and two, and where you used to find space in zones three and four, now you have to go to zones five through eight, which are further and further from the center of the city.

"There are pockets such as around Heathrow Airport and West London's Park Royal, but these two areas have seen at least 20 percent to 30 percent growth in rent and land values over the past two to three years," says Smith.

As in the United States, the biggest driver for urban-logistic centers has been e-commerce from the likes of Amazon. "They used to do just the big fulfillment centers," says Smith. "Now, Amazon is getting closer to population centers because they promise to deliver in a couple of hours."

All this has jacked up the cost factor. A 16-acre site in Northwest London, about five to 10 miles from the center of the city, sold for £3.3 million ($4.6 million) an acre, and there were over 20 bids on the property, says Smith. "At that price, the space has to lease at £15 ($21) per square foot to make the math work. Three years ago, the space would have leased at £10.50 ($14.48) or £11 ($15.17) per square foot and the land value would have been £2 million ($2.8 million) or less."

To combat the problems of rising land costs, residential housing and an inability to get to that last mile, U.K. developers are devising a host of radical solutions, including multi-story logistic buildings, underground structures, and "beds and sheds," or multi-use buildings with urban-logistics on the ground floor and residential on the upper floors.

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