



FEATURED ARTICLE

RISING ABOVE

THE GROWTH OF MULTI-STORY WAREHOUSING

BY RACHEL ANTMAN



THE DEVELOPMENT OF MULTI-STORY WAREHOUSES IS NO TALL TALE, AT LEAST IN SOME PARTS OF THE WORLD. THESE STRUCTURES—ALREADY WELL ESTABLISHED IN ASIA, EUROPE, AND AUSTRALIA—ARE ON THEIR WAY TO OTHER REGIONS.

DEVELOPERS ARE HOMING IN ON MARKETS THAT MEET CERTAIN CRITERIA: HIGH-DENSITY POPULATIONS, RESIDENTS WHO REGULARLY SHOP ONLINE, AND A SCARCITY OF AVAILABLE LAND.



London, Seattle, San Francisco, and New York City all fit the bill. It is no surprise, then, that industrial developers have chosen these cities for a new wave of multi-story projects. London-based Gazely is developing the U.K.'s first three-story warehouse in London Docklands (SEGRO operates a two-story one near Heathrow). Prologis, based in San Francisco, is building a three-story warehouse in Seattle and planning another in San Francisco. Projects underway in New York City include a four-story and three-story in Brooklyn, and a two-story in the Bronx.

Yet despite these high-profile introductions, wider adoption is limited within the U.K. and U.S. Why?

OBSTACLES

"I have been banging on about multi-story for some years since returning from working in Asia, and I am really surprised that it is taking this long in the U.K.," says Andrew Smith, SIOR, partner at Carter Jonas in London. He attributes the lag to design considerations, a lack of awareness, and risk.

Design challenges face developers in both the U.K. and the U.S. In the U.K., for example, ramps must accommodate trucks with drivers on the left (from continental Europe) as well as on the right. Ramps in the U.S. have to accommodate trucks with larger dimensions.



Photo by Prologis

Expense is another concern. Daniel Zelonker, SIOR, broker partner at Real Miami Commercial Real Estate, notes that multi-story warehouses cost much more to build than single-story because they require automation and floors that can handle heavy trucks. John Dohm, SIOR, of Infinity Commercial Real Estate and president of Florida Transatlantic Consulting, estimates that the cost is at least twice that of a single-story.

Support—usually accomplished with columns—creates additional problems. As Dohm explains: “The more support columns you have, the more complicated it is to put racking systems in.”

Like Smith, Dohm observes a lack of awareness and an aversion to risk, especially among lenders who are

more inclined toward multifamily. Furthermore, few residents want an industrial presence in their communities. Retail is considered an amenity; warehouses are not—even though consumers expect quick turnaround on their online orders.

OVERCOMING THE OBSTACLES

Such obstacles are not insurmountable, however. In Asia, initial reluctance did not last long. “Logistics firms like UPS and DHL didn’t want it,” says Bjarne Bauer, SIOR, managing partner Commercial Real Estate Transactions with NAI Sofia Group Shanghai. “But finally, after developers built on spec, people saw the ramps and saw how easy it was for trucks to navigate.”

Reluctant developers and e-tailers will eventually have no choice. According to Miami-based Zelonker, “we’re running out of dirt.” He gets frequent calls from major industrial developers who ask him, “Did you find me some industrial dirt?” Smith characterizes multi-story warehousing as “the future, particularly as our populations increase, and our resources become more scarce.”

THE ROLE OF BROKERS

Brokers have to think long-term and persuade their clients to think long-term. “As rents have appreciated, it has become easier just to continue to do ground-floor-only designs, but with land values disproportionately growing, more



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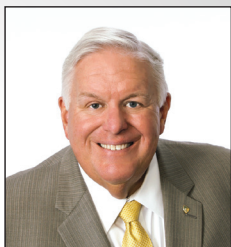
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dense designs are needed to make the sites pay back," Smith emphasizes.

Education is key. "People may have prejudices against multi-level warehouses, especially if they're in the traditional logistics business," says Bauer. "You have to show them the speed and convenience. Use animation or video and show them in person. Show them how it works with a double-story, and then a three-story with a big ramp and trucks."

"We get to a lot more conferences [and become more educated on these issues] than most CEOs get to," Dohm points out, noting that CEOs rely on brokers for information about societal trends. "We're the people who drive the dialogue in a lot of ways."

FORECAST

The most productive dialogues take the distant future into account. "Even the IRS gives you 39 years to depreciate a property," says Dohm. "If you can't make it relevant for at least 39 years, you have done a disservice to everyone involved."

So what's ahead for 2059? Good guesses include more in the way of autonomous vehicles, drones, and 3D printing, all of which will have major impacts on e-commerce and the way we both live and consume.

Dohm closely follows the work of Ware Malcomb, a design firm with warehouse projects across the U.S. According to Michael Bennett, LEED AP, principal of the firm: "We have the opportunity to future-proof multi-story distribution buildings. As automation increasingly takes over, these buildings will be hybrid—instead of a single-use logistics center, they may be a development that accommodates last-touch, on-demand needs of the consumers living in the neighborhood, or essentially on the site. Our clients have challenged us to start looking at scenarios with office

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and live-work development on top of a logistics plinth."

For dense urban areas, Dohm envisions multifamily housing combined with a warehouse. The warehouse becomes a combination platform and unseen interior core, and "the last-mile delivery becomes a last 20-yard delivery" through robotics, possibly incorporating a type of dumbwaiter system for residents. Another ideal stack, in his opinion, would be a two-story or three-story warehouse serving the cargo area of an airport, with a flight simulator school on top of that, and a hotel/restaurant on top of the school where pilots could stay. "Add uses that add value," he urges.

Future-proofing extends to energy. Bennett notes that hybrid buildings "may eventually be self-powered as we

continue to look for ways to solve the energy needs of automation. Designing public, rooftop amenity spaces that incorporate alternative power solutions can serve energy needs and give back to the surrounding community."

Preparation is essential, even for the shorter term. Smith expects the market "to evolve quite significantly over the next few years." Dohm's advice for now and for the future is to construct smart—i.e., adaptable—buildings. For industrial developers and investors who heed his advice, the sky is literally the limit. ▼

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Photo by Prologis
Prologis' Georgetown Crossroads is the first multi-level distribution facility in the United States. The three-story building is located in the heart of Seattle's transportation network to help meet the demands of last touch delivery.

