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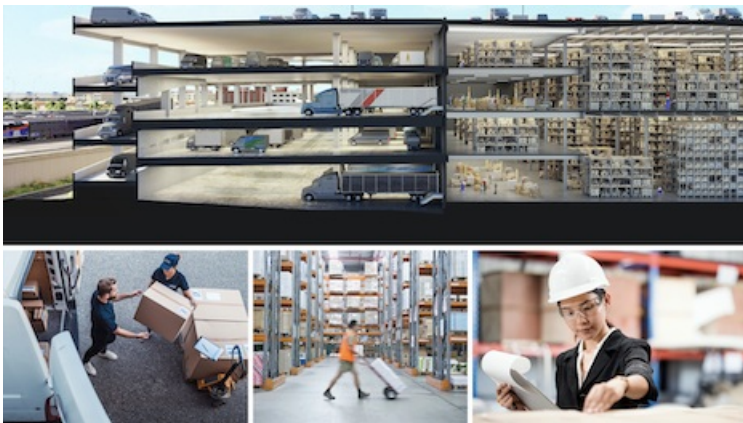
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REAL ESTATE

Are multistory warehouses in cities the answer as luxury consumers expect speedier delivery?

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Multistory warehouses may be the future for brands and retailers looking to speed up the last-mile delivery process. Image credit: JLL

By STAFF REPORTS

As demand for luxury goods grows, so do expectations for speedy delivery on par with mainstream retailers such as Amazon. One answer maybe improving the last-mile delivery process with multistory warehouses in urban settings.

This white paper from real estate firm JLL, titled 'Multistory warehouses and their towering future,' outlines the current state of urban logistics in the U.S. and how developers and their tenants can plan for the future.

This paper was authored by JLL vice chairman Leslie Lanne, global head of industrial research Mehtab Randhawa and senior research analyst Elizabeth Keiger. Please read on:

This year marks the five-year anniversary of multistory warehouse development in the United States.

To meet new demands and evolving consumer behavior, a subset of buildings have emerged that are dubbed "urban logistics" inventory.

A building classified within the urban logistics inventory is not your run-of-the-mill tilt-wall big-box construction.

In fact, 59 percent of the urban logistics inventory in New York City was actually built between 1900 and 1959.

This paper will run through a brief history of multistory warehouses and where developers drew inspiration from when bringing this unique product stateside.

Next, we will detail a multi-property case study on multistory success stories about properties located near the heart of New York City.

Finally, we will dive deep into both the opportunities and the challenges that come with the urban logistics market

in the U.S. as we plan for the future.

While "urban logistics" is a newer term in the lexicon, there is no doubt that this sector has room for expansive growth in the coming years.

How did we get here?

Before delving into the rise of multistory warehousing in the U.S., it is beneficial to understand where the inspiration for this new category of buildings evolved from.

Six of the 10 most populated countries in the world are in Asia, with the top two being India and China.

Multistory warehouses have been around in Asia at least for two decades and arose as a response to necessity (i.e., lack of land).

"If you can't build out, you must build up" was essentially the approach that many industrial developers had to take.

The tallest of multistory warehouses are located in Hong Kong (up to 22 floors) and are considered outliers. However, it is not unusual to see a multistory warehouse in China, Singapore or Japan standing at least five stories tall.

In Australia, where land is not as constrained, multistory warehouses are now also starting to emerge. Early designs are usually two stories but with a larger floorplate.

Markets in the EMEA region joined the multilevel trend given their population density, land constraints and import/export traffic.

London's Heathrow airport is one of the busiest airports in the world, which was the factor that drew developers to the United Kingdom for the first modern multilevel logistics building in the country.

While Paris has multistory ramped buildings built in the 1970s, the first modern multistory project, named Paris Air2 Logistique, was completed in 2018.

Another notable accomplishment of this project was that it preleased to furniture giant IKEA prior to delivery. After successful projects in these metropolises, projects in Spain, Germany and Italy quickly followed suit.



Multistory warehouses are in the nascent, but promising, stage of development in the United States. Image credit: JLL

What makes a multistory warehouse unique?

The most important criteria that sets a multistory building apart from its cousin, a mezzanine building, is that there are loading docks on more than one level.

It is easier to make the ramped warehouses work in APAC and EMEA, where the average tractor trailer is much smaller.

For reference, a trailer in EMEA is six meters shorter than the average trailer in the U.S., which is 53 feet. With smaller trailers, it is easier to turn on ramps and maximize truck parking.

Most common in operation are hydraulic and gantry cranes made for heavier loads. In areas where ramps are prohibitive, truck lifts are used.

Automobile parking is also a crucial component of a logistics building, more so in areas that do not have reliable public transportation, such as Australia.

Many multistory buildings feature parking decks akin to what you would find at a shopping mall, where you can fit many spots on different levels.

Since many of these multistory buildings are located in areas that also serve as last-mile distribution hubs, one floor can serve as the distribution center while others might serve as the fulfillment center or a makerspace.

Sightseeing in Seattle

Less than 7 miles from the iconic Space Needle in downtown Seattle sits a 13.67-acre industrial parcel upon which the first multistory warehouse of its kind would be built in the U.S.

Prologis, the largest industrial and logistics landlord, partnered with Craft Architects which has since been acquired by global brand experience firm Nelson to build a three-level warehouse measuring 590,000 square feet.

On the first level are 62 dock doors, and the second level has 38. The multi-staged parking levels allow for efficient streamlining of the queuing process of delivery trucks when using fleet vehicles for last-mile delivery operations.

Site assemblage is of the utmost importance when planning new developments, especially one that is truly the first of its kind.

It is imperative to understand why this particular site was selected for this endeavor.

First and foremost, the proximity to major air and seaport hubs would be paramount, as industrial real estate thrives or not by the movement of goods.

Another crucial driver in site selection revolves around population and, in this case, population density.

The population of Seattle at the time of the building's completion was nearly 4 million people, making it the 15th-most populous city in the nation that year.

When looking at Seattle's population density the number of people per square mile ranking in 2017, Seattle landed 12th on the list with a population density of 8.634. The only West Coast cities that were denser were San Francisco (second) and Santa Ana (sixth).

Finally, one of the most obvious signs or arrows is the proximity of the headquarters to the U.S.'s largest ecommerce and tech giant, which is based in Seattle. The sales of this ecommerce company alone have soared nearly 212 percent from 2013 to 2018, when Prologis delivered its Georgetown Crossroads building.

Much as ecommerce companies disrupted stale delivery models, so did the success of the first multistory warehouse in the U.S.

A tale of two cities

Choosing a location for subsequent multistory projects was easier, as New York City and Chicago made perfect sense, given their high population density.

However, the usual hurdles of finding a suitable and buildable piece of land remained, and developers pivoted to another new idea on how to accomplish constructing a multistory building by converting an antiquated movie theater site into what would become 2505 Bruckner in New York's Bronx borough.

Developers Innovo Property Group and Affinius Capital transformed a 20-acre site in the Bronx into the largest multistory logistics facility on the East Coast at the time.

The 1.1 million-square-foot project features Trophy specs, including two separate levels of warehouse space with 28-foot to 32-foot clear heights, ample truck courts on both levels, and generous fleet parking with electric vehicle charging infrastructure.

What made this project possible? A relatively large site already zoned for warehouse use and a superior location for last-mile distribution, with access to 10 million consumers within 15 miles and innovative design attuned to the needs of modern logistics users. The site was partially preleased to a large ecommerce user, making the notion of same-day delivery a reality.

Currently, there are five existing multistory buildings in the New York City boroughs and another five under construction.

As it pertains to the true urban logistics inventory, the projects under construction and in the planned/proposed area of the pipeline total 9.4 million square feet of additional last mile logistics space in New York City.

The most recent multistory building to break ground is in the third-largest populated city in the U.S., Chicago.

Once complete in 2024, 1237 W. Division will be a 1.2 million-square-foot, two-story warehouse that boasts both rooftop parking and a five-story parking garage.

While the U.S. multistory and urban logistics landscape is currently very much in its infancy, there is tremendous potential in the future of multistory and urban logistics in both the established urban logistics markets and emerging urban logistics markets.

Opportunities in the future of last-mile buildings

Agile architecture: One of the paramount takeaways for the U.S. from projects around the globe is how to maximize the site and the building on it.

As it relates to the physical building itself, careful consideration is given to the layout. Which stories does it make the most sense to have loading docks on? Should the rooftop be used for fleet parking, or should it be the office space of the building? Should employee parking be attached or unattached? And so on.

Prolific parking: When it comes to any commercial building, it is a tale as old as time. How much parking is needed, and where should the parking be located?

Given the land-constrained concrete jungles of the urban logistics landscape, parking is usually viewed as a luxury. But when it comes to logistics, it is also a necessity.

Furthermore, in New York City, parking rents have increased 50 percent over the last three years, so developers are getting creative when it comes to parking to maximize space and profitability.

Employees: Even though public transportation is reliable in New York City and Chicago, the warehouse districts are often found in the far corners of the metro areas, creating the need for people to commute to work.

Fleet parking: Many delivery companies are using more environmentally and space-savvy sprinter vans for parcel delivery.

However, due to the number of vehicles needed as well as planning for queuing said vehicles, parking for an industrial user's fleet is of the utmost importance.

The location and setup for parking and charging is integral in the layout of multistory buildings.

Delivery dichotomy: New developments lead to new ideas, one of those being new modes of delivery.

Historically speaking, delivery trucks were usually bulky box trucks and the like.

However, companies in these urban core areas are also using other methods to meet the growing demand of providing two-hour or same-day delivery services, via waterway access as well as electric bicycles and scooters.

Electric bicycles also offer faster service. Bike couriers can maneuver routes that cars and trucks might not have access to, as well as the fact that it is much easier to park a bike or scooter.

Urban logistics markets such as New York and Chicago are unique in that they are flanked by rivers and waterways, which are also used to move goods from warehouses to the end user.

Due to shifting population metrics and density, markets such as San Francisco, Los Angeles, Boston and Philadelphia are primed for multistory and urban logistics projects in the future.

ESG and human-centric design: While the European Union is ahead of the curve when it comes to environmental pledges, the U.S. is working quickly to catch up, and modern urban logistics buildings will be a key part of contributing to the environmentally conscious buildings of the future.

ESG and designing buildings for the employee go hand in hand.

Acquisitions for future use: In 2022, Prologis acquired an operational amusement park on 112 acres in Santa Clara, California.

As part of the deal structure, the amusement park will remain open for the duration of its remaining 11-year lease term.

While future plans for the site have not been disclosed, the Bay Area property would make for a perfect site for industrial users.

Zoning: Many government bodies are operating with zoning laws that are outdated as they pertain to industrial

real estate.

Having a property zoned for its highest and best use is one of the core components of the land entitlement process.

Given that this process is lengthy and complex, getting the appropriate zoning for a unique building such as a multistory warehouse in a core urban market can significantly set back the development timeline.

Furthermore, many local municipalities are facing growing opposition from residents who want moratoriums on any new industrial development in their neighborhoods.

Consumers want their packages on the same day but do not want the buildings that house those goods in their backyard.

Land availability: In many cities, demand is quickly outpacing supply, causing rental rates to rise.

The pace at which ecommerce, logistics and consumer goods continue to grow is unmatched, leading many to wonder, how do we meet the demand?

Land availability for industrial assets in markets across the country is rapidly dwindling, and industrial land availability in urban core markets is incredibly slim.

Additionally, the cost of land has skyrocketed in the wake of the pandemic.

Obtaining financing for this relatively new product type has always been tricky, but with an ongoing banking crisis in the U.S., the cost of capital has ballooned, making many projects not feasible.

Competition from other assets: Competing assets include hotels, multifamily housing and retail sites in dense urban areas, which can be just as profitable but come with less of a headache.

Designing, funding and building a multistory warehouse can pay off massively, if the project can get off the ground.

Instead, some developers are pivoting to building data centers on land that was previously slated to house logistics operations.

Per a JLL article, the cost to build a data center typically ranges from \$125 per square foot to upward of \$200 per square foot, while the cost to build a multistory asset is roughly two times the cost of a single-level asset.

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