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Why Developers Want to Build Multistory Warehouses in Urban Centers

Where the Opportunities in Multistory Can Be Found



(Getty Images)

Contributed By Liz Froment - September 23, 2019

There's little doubt the e-commerce explosion has made a big impact in the daily lives of many. It's certainly true for commercial real estate.

New trends in online shopping and e-commerce are often some of the most cited reasons behind the struggles in retail overall. However, in some sectors, the drive to e-commerce is presenting interesting opportunities for developers and investors.

One to watch is warehousing and logistics.

Driven by evolving delivery preferences and location, developers are looking for new approaches to serve the needs of an increasingly demanding supply chain. For many that means moving away from traditional warehousing models and building up.

Delivery Demands Change the Game

When it comes to warehousing, "Amazon has rewritten the rules of the road," says John Boyd, principal of the Boyd Company in Princeton, N.J. "All of the other major retail players, like Target, Walmart, Macy's, and Kroger are trying to catch up."

In the pre-Amazon days, Boyd notes, the historical model was to build warehouses in more remote locations. In these areas, land is typically less expensive and there's plenty of space for large footprints.

That model is changing due in part consumer's increasing demands for faster delivery. Today, the ability to shop any time and get packages delivered within a day or two is driving a shift in how consumers interact with retail.

A recent survey from Capgemini found that 55% of consumers will switch brands for a faster delivery service. The same survey found that as delivery times shortened, brands offering same day or even two-hour delivery would attract a more loyal customer base.

Trading Land for Location

Shorter delivery times in demand means the supply chain must catch up. To do so, developers are looking to opportunities closer to dense urban centers where they are building up.

Gillam Campbell, a research manager in JLL's Industrial sector, explains: "The increases in e-commerce activity alongside consumer's delivery expectations are driving distribution centers into urban cores."

Although there are more constraints in these regions, the demand for delivery means developers are willing to trade off higher land and labor prices for proximity.

Also, that doesn't mean developers aren't seeing the potential of other financial benefits.

"In turn, they're saving more on logistics costs by being in an ideal location," Campbell says. "These cost savings on logistics outweigh the higher real estate costs associated with being closer to urban cores. Not only are they realizing greater efficiencies but they are saving money in the process."

Finding the Hottest Markets

Both Campbell and Boyd highlight that the opportunities for these expanding markets are going to focus on coastal parts of the country.

“Where we're seeing true multistory is in the densest, coastal markets,” says Campbell. “The lack of land due to population and geographical constraints is encouraging developers to build up.”

Boyd noted that his company has seen “real estate prices spike in and around major cities like Boston, New York, Chicago, Miami, Los Angeles and San Francisco.”

The reasoning behind the growth in these areas is particularly tied into the populations they serve. In just the Northeast corridor, which runs from Boston to Washington, for example, there are more than 50 million people. The data shows a significant percentage of these households increasingly require same- or next-day delivery.

Revamping Existing Warehouses

While there are new builds underway, such as a recently completed multistory warehouse in Seattle, and new developments planned for New York City, developers are looking to other solutions too.

Boyd highlights common trends, noting the “redevelopment of older warehouses and even restructuring of former retail sites, vacant malls and vacant grocery stores into multistory warehouses.”

Developers are also taking current warehouses to new heights by raising the roof—literally. Traditional one-story warehouses are getting retrofitted to dramatically raise ceiling heights to upwards of 60 feet. These provisions allow for mezzanine-style, multistory warehouses.

Another benefit for this type of developments is that it improves conditions for workers. “In addition to the dollars and cents reasons for bigger warehouses it's also providing a more comfortable work environment,” Boyd says.

For developers and investors, it's clear that the rise of e-commerce has changed how consumers engage with retail, and the supply chain is ready to catch up. Multistory warehouses is one approach.