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PROPERTY REPORT

Amazon's New Multistory Warehouse Aims to Cut Delivery Times

Having vertical distribution facilities closer to urban customers helps slash delivery times



Prologis Georgetown Crossroads, a three-floor 590,000 square-foot industrial warehouse in Seattle. PHOTO: WOODY WELCH/PROLOGIS

By Keiko Morris and Jennifer Smith

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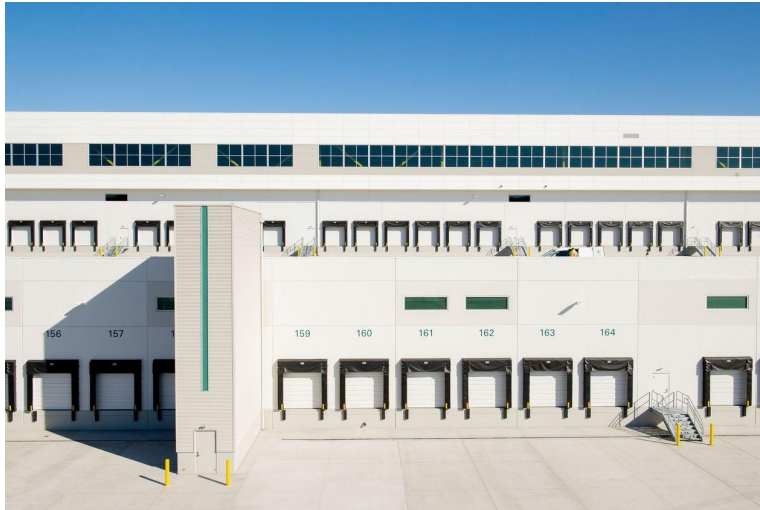
Amazon.com Inc. has agreed to take space in a first-of-its-kind three-story warehouse, a new type of distribution center that could reduce delivery times in congested cities to hours rather than days.

While common in densely-populated Asian and European cities, modern warehouses with multiple floors have been absent until recently in the U.S., where higher land and construction costs deterred developers.

But now that more retailers are racing to deliver more same-day packages, developers are starting to build the multistory fulfillment centers needed to speed delivery in congested cities.

Amazon recently signed a lease for a three-story warehouse in Seattle. The warehouse is the first of its kind to open in the U.S. with multiple floors that large delivery trucks can access by ramps, property analysts say.

Amazon is taking about 500,000 square feet, and the Home Depot Inc. has plans to take almost 100,000 square feet, according to a person familiar with the project.



The Prologis Georgetown Crossroads is the first industrial warehouse of its kind in the U.S., allowing trucks to drive up ramps and dock on the second floor. PHOTO: WOODY WELCH/PROLOGIS

Home Depot's lease at the Seattle warehouse is part of its investment strategy to speed up delivery to customers and stores and reach 90% of its shoppers with same-day and next-day delivery, a company spokeswoman said.

Amazon, Target Corp. , Walmart Inc. and other big retailers are looking to slash delivery times from two days to as short as two hours in some instances. To do so in dense urban centers, having distribution facilities close to the customers, rather than in more distant suburban locations, is critical.

"You have to go vertical because you can't find a 50-acre space in the middle of a city close to the customer," said Hamid Moghadam, Prologis's chief executive. Prologis, one of the world's largest owners of warehouse space, developed and owns the Seattle building.

Freight elevators capable of carrying forklifts and a ramp that enables trucks to drive right up to loading docks on the second floor help speed up delivery.

There are at least three multistory warehouses planned for New York City, including a three-story warehouse in Brooklyn with backing from Goldman Sachs Group Inc., according to JLL. Bridge Development Partners LLC and DH Property are planning a four-story warehouse in Brooklyn.

Online retailers in New York City are looking for more than 9 million square feet of warehouse space, but there is only about 5 million square feet under construction, said Rob Kossar, a vice



Prologis Georgetown Crossroads, as shown in this rendering, includes freight elevators with forklift access exclusively serving the third floor. PHOTO: STUDIO 216/PROLOGIS

chairman at JLL.

“If you need to do same-day delivery in Brooklyn, Queens and downtown Manhattan, you have to be in the city,” Mr. Kossar said.

Target’s strategy, however, has relied on the use of its stores as distribution hubs to get close to its online shoppers and speed up deliveries rather than investing in new warehouse fulfillment centers.

The Seattle building’s first two floors are like warehouses stacked on top of each other, connected by a ramp to loading docks and a staging area that can accommodate large trucks. Its third floor, designed for offices and light manufacturing, is accessible by freight and passenger elevators.

Developers are eager to build multistory warehouses because they can charge a rent premium. Asking rents at the Seattle project ranged from 15% to 30% above prices for older, less functional single-story warehouses in the area, said a person familiar with the matter.

Yet developers and analysts say tenants may still have lower overall costs because facilities closer to the customer could mean lower labor and transportation expenses, which usually dwarf real-estate costs.

Still, multistory warehouses have taken longer to catch on in the U.S. because they also present new risks.

Land and construction costs for a structure to support large, heavy truck loads are often double that of single-story warehouses. The cost for the Prologis project was about \$260 a square foot including land, compared with about \$125 a square foot for a single-story warehouse in other Seattle industrial neighborhoods, the company said. However, prices in the same neighborhood could run to \$230 a square foot, Prologis said.

Real-estate firms have had to move forward with these expensive projects without first securing a tenant. Now, analysts say, Amazon's lease is a big vote of confidence for this type of warehouse design.

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“Developers don’t have to answer the question anymore of why Seattle [the Prologis warehouse] is not leased,” Mr. Kossar said. In New York City, the format is even more compelling than Seattle “because of the extraordinary undersupply of land,” he said.

But for some real-estate investors, Amazon’s blessing is not enough. They want to see that these properties can trade through a secondary market.

“From the developer and speculator standpoint, what’s the exit?” asked Walter Byrd, executive managing director at real-estate services firm Transwestern. “Selling it to the secondary market as an investment, that is the big hurdle to prove that the investment capital is attracted to it.”

Prologis, which has 786 million square feet of industrial buildings world-wide, has multiple-story warehouses abroad—many over four stories—in places such as China, Singapore and Japan where the land in cities is scarce and therefore pricey.

Three years ago, the company began planning its Seattle project, deciding that conditions there and in cities including San Francisco, New York and Los Angeles were ripe for vertical warehouses.

Land costs in these cities are high, and retailers have expanded same-day, two-hour and one-hour delivery services there, requiring shipping locations much closer to the customer than before. Nationally, vacancy rates have dropped, and rents have continued to rise, giving developers incentive to build.

Vacancy rates in the U.S. have fallen from 7.2% in the second quarter of 2014 to 5% in the same period this year, while asking rents have risen 31% to \$5.86 a square foot in the same time,

according to JLL.

SHARE YOUR THOUGHTS

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Would you support your city hosting an Amazon warehouse if it could reduce wait times on deliveries? Join the conversation below.

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