

TRI-STATE CAPITAL MARKETS

MODERN MULTISTORY INDUSTRIAL **FACT OR MYTH?**

Multistory development has been common for decades in parts of Asia and Europe and is now beginning to emerge in urban, supply-constrained markets across the United States. The first modern multistory speculative development in the US was Prologis' 3-story, 590,000 SF, Georgetown Crossroads project in South Seattle, which was completed last year. This new product type is relatively abstruse and untested in the United States with significant speculation around achievable rent and residual value.

Why Build Multistory?

Primary Drivers

- "Last Touch" logistics related to shift from next day delivery to two hour delivery
- Explosive growth of e-commerce and need for new construction with efficient layouts
- Proximity to dense, affluent consumer base
- Rising land costs making it hard to justify new development with single-story layouts

Multistory Industrial Benefits for Both Investors & Users

- Increase FAR without compromising functionality
- Higher FAR = higher NOI = ability to increase land basis
- Speed to market = yield premium
- Modern generation supply/demand imbalance in the most infill locations – 713 MSF net absorption vs 517 MSF completions over past 5 years in US

Where Is It Being Built?

Currently in the Tri-State Area, there is one project under construction and one expected to break ground this year. There are also four additional proposed speculative projects throughout Brooklyn, Queens and the Bronx. Beyond New York, other densely populated areas along the East Coast, such as New Jersey, Boston, and Philadelphia, are likely to be next for multistory as land costs rise.



Address	City	Status	Size	Stories	Owner
640 Columbia Street	Brooklyn	Under Construction	336,500	3	Dov Hertz, Goldman Sachs Asset Management
2505 Bruckner Boulevard	Bronx	Construction to Begin 2019	700,000	2	Innovo Property Group, Square Mile Capital
50 W 21st Street	Brooklyn	Proposed	1,300,000	4	Bridge Development Partners, Dov Hertz
56-19 Grand Avenue	Queens	Proposed	770,000	4	RXR Realty, LBA Logistics
130-02 S Conduit Avenue	Queens	Proposed	308,000	5	Triangle Equities
280 Richards Street	Brooklyn	Proposed	TBD	TBD	Thor Equities

Functional Modern Generation Specifications Drive Design

- Ideal site at least 4 to 9+ acres with rectangular shape (to accommodate a truck ramp along the longer side)
- Design must be suitable for single and multi-tenant occupancy
- Straight truck ramps to accommodate 53' trailers and minimize construction costs
- Segregated two-way ramps for efficient circulation
- Ability to park employee cars, service vehicles, and delivery vans on-site
- Functional clear heights: 28'-32' for the first two floors

Multistory Design



Capital Markets Perspectives

- ▶ **Yield to Cost:** 150-200 BPS premium over comparable return on cost for single-story development
- ▶ **Construction Cost:** 4x-5x single-story hard and soft costs requiring \$28+ PSF NNN rents
- ▶ **Exit/Residual Value:** Remains uncertain with conservative underwriting yielding 15%-20% leveraged IRR
- ▶ **Financing:** Lenders are highly attracted to infill locations with high barriers to entry

Conclusion

Multistory industrial is not a trend but will become an important evolution of industrial building development and design in specific markets. This will ultimately be viewed as an institutional asset with long-term value in land constrained locations.

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