



The REALTY CHECK in Warehousing

The total warehousing space requirement in India expected to grow at a CAGR of 9 per cent from 919 million sq. ft. in 2014 to 1,439 million sq. ft. by 2019. Real estate players are nowadays beginning to focus on warehousing, pinning high hopes on implementation of the Goods and Services Tax (GST), boom in the e-commerce industry, and a spurt in manufacturing activities on account of the recently launched 'Make in India' campaign. With real estate developers, high net worth individuals (HNIs) and private equity funds planning to invest in the warehousing sector, we perform the most crucial 'Realty Check'

Joydeep Banik

The Indian warehousing and logistics sector is at the threshold of major transformation. However, in the real estate frontier, logistics and warehousing apparently seems to be an under invested area. Resultantly, as compared to advanced countries, our warehousing sector remains at a relatively modest stage, largely dominated by unorganised players who account for 85 per cent of the overall market. Traditionally, Indian companies have considered warehousing activity as an unavoidable cost and the objective was always to reduce this cost as

in terms of structure and will open up huge opportunities for real estate players in the years to come.

Precursor

India always had extremely limited supply of high-quality industrial and logistics-related real estate. Jasmine Singh, Head-Industrial & Logistics Services, CBRE South Asia Pvt Ltd comments on this aspect, "The limited supply of investment-grade real estate asset is a challenge across the country. It is not only a significant growth bottleneck for occupiers looking at modernising their manufacturing and supply chain facilities, but also for first



much as possible. However, the scenario is changing rapidly. Increasing competition and introduction of global best practices by multinationals are compelling Indian businesses to re-think on the importance of warehousing and resultant benefits of managing an efficient supply chain.

Warehousing at present accounts for about 20 per cent of the Indian logistics market and is expected to grow at a fast pace. With the Indian Government's renewed focus on manufacturing and infrastructure development, the warehousing sector has shown a tremendous traction in the last couple of years. The boom in the e-tail sector has also added to this. With GST round the horizon, an organised industry for warehouses is expected to develop soon. Again, in the last few months, some big names in the realty sector have shown their interest towards warehousing. Experts predict that this sector is going to experience a sea change

time entrants in the industrial and logistics landscape. The current land holdings of the domestic real estate developers are aggregations done with an objective of potential residential or commercial development. The main challenges for the deployment of these assets for industrial and logistics purpose include the current zoning, capital values and expected yields."

Anshul Singhal, CEO, Embassy Industrial Parks points out, "Land acquisition, lack of experienced industrial real-estate development professionals, and access to long-term capital are some of the major challenges faced by warehouse developers in India currently." On the other hand, Binaifer Jehani, Director-Industry and Customised Research, CRISIL believes that land banks possessed by real estate builders can really help develop an organised industry for warehouses in near future.

"Many developers hold huge land parcels in the peripheral regions of major cities. With sluggishness in the residential real estate segment, they are diversifying into warehousing development, which has witnessed good traction in recent times. Many a times, these land parcels are situated in far-off locations and are therefore not rewarding for residential/commercial projects. Such land parcels are ideal for large-scale centralised warehouses. Also, given the fact that developers typically hold land parcels across geographies, it becomes easy for e-commerce players to enter into agreements at the pan-India level for development of high-quality/built-to-suit warehouses. In terms of cost benefits, developers who bought land parcels in the past at low rates will gain from demand for such warehousing space," informs Jehani.

Shouvik Mandal, Assistant Director-Finance, Apeejay Surrendra Management Services Private Limited also agrees that real estate developers can play an important role to develop land banks into logistics activity hubs. According to him, "The developers who had been in the market for long are already having land banks and they have taken this opportunity to convert the land into warehouses. This will give them ease to handle finance pressure till the real estate market improves. With India getting more and more into manufacturing and trading activities, the demand for warehouses will increase definitely. This sector is going to change in the next five years with big warehousing giants and PE funds entering the business in India."

Jaideep Ghosh, Partner, National Head - Transport, Leisure & Sports Sector, KPMG in India tells, "The upcoming Indian warehouses being developed are much more organised and well-planned with a shift to usage of high quality Grade-A and B. In 2014, the cumulative warehousing supply (Grade-A and B) across eight Indian cities was about 80 million sq. ft. this grew at 20 per cent to reach 96 million sq. ft. in 2015, and is expected to continue growing at same pace to 115 million sq. ft. in 2016. With industrial corridors like Delhi-Mumbai Industrial Corridor (DMIC) and the expansion and improvement of regulatory framework, things are indeed looking up for the real estate sector to move investments in industrial and logistics parks' development."

The Paradigm Shift

Warehousing has always been an unorganised and fragmented sector in India; but off late, the demand for high-quality benchmarked warehouses has grown considerably. Also, changing business dynamics and entry of global 3PLs has led to the re-modelling of the logistics



Anshul Singhal
CEO, Embassy Industrial Parks

and warehousing services in India. Singh notes, "An improving domestic economy and legislative reforms have been encouraging an increasing number of foreign firms to establish their manufacturing bases in India. Warehousing and food storage service providers have expressed particular interest in serving the growing industry needs of the country. The entry of multiple global brands may help raise the existing technological know-how in the field here to global standards, and create more employment opportunities in the sector. This has also led to the demand of better designed and more efficient industrial and warehousing assets with global safety standards.

Approximately 10 million sq. ft. of



LAND ACQUISITION, LACK OF EXPERIENCED INDUSTRIAL REAL-ESTATE DEVELOPMENT PROFESSIONALS, AND ACCESS TO LONG-TERM CAPITAL ARE SOME OF THE MAJOR CHALLENGES FACED BY WAREHOUSE DEVELOPERS IN INDIA CURRENTLY.

industrial and warehousing space was taken up across India during 2015, according to CBRE's India 'Industrial and Logistics Market View' report for H2 2015. Healthy demand was noted from traditional as well as emerging sectors, translating into a year-on-year (y-o-y) growth of nearly 40 per cent. The government's announcement during recent quarters on infrastructure development being top priority, as well as its focus on the execution of stalled projects also helped to drive growth. Going forward, healthy leasing activity is expected from traditional demand drivers, along with large sized space take-ups from emerging industrial/warehousing space occupiers such as e-commerce players."

Jehani adds from the research



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