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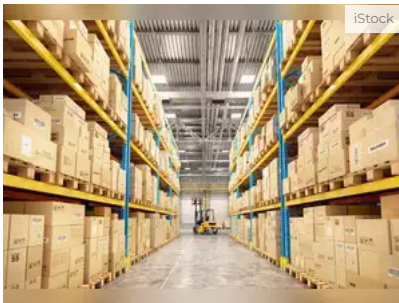
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## Why warehousing is a booming asset class for discerning investors in India

By Ganesh Arunachalam, ET CONTRIBUTORS Last Updated: May 11, 2024, 10:19:00 AM IST

### Synopsis

The demand for modern warehousing facilities is touching a new high as e-commerce and retail sales are seeing a surge with each passing day in India.



Warehousing in India is facing multiple favorable tailwinds.

The **warehousing** sector is witnessing a period of significant transformation, driven by exponential **growth** of **e-commerce** penetration, continuing growth in consumption and the ongoing modernization of **logistics** infrastructure. The government's steadfast commitment to infrastructure development for seamless logistics movement within the country, with focussed initiatives like **Bharatmala Highway Expansion project**, **National Logistics Policy** 2022, establishment of **Dedicated Freight Corridors** (DFC's) etc. have provided a booster shot to this growing sector and have also bolstered the **demand** for **modern warehousing** facilities across the country.

Warehousing in **India** is facing multiple favorable tailwinds and is currently one of the most structurally stable **investment** themes for discerning **investors**.

### Warehousing: The engine of commerce

At its core, warehousing represents the physical foundation for efficient supply chains. Warehouses provide the essential storage and distribution space that facilitates the movement of goods from manufacturers to consumers. In a country like India, where e-commerce and retail sales are experiencing a surge, the demand for modern warehousing facilities has never been greater.

India's logistics sector currently faces a significant challenge: high logistics costs compared to developed economies. While the national average hovers around 14% of GDP, developed countries like the US, Germany, Singapore, and Japan enjoy significantly lower logistics costs, typically around 8% or 9%. A staggering 50% of these higher costs in India can be attributed to inefficiencies in transportation infrastructure. This highlights the critical role that strategically located, well-connected warehouses can play in streamlining supply chains and reducing transportation expenses.

By addressing the current infrastructural challenges and strategically developing warehousing capacity, India is trying to significantly improve its logistics efficiency and unlock a new tangent for economic growth. By investing in modern warehousing facilities in key locations with robust infrastructure, investors can play this theme and unlock the sector's full potential.

### A Market poised for demand-led growth

The Indian warehousing sector is characterized by several key growth drivers:

- **E-commerce Boom:** India's e-commerce market is projected to reach a staggering \$350 billion by 2030. This exponential growth necessitates a robust network of warehouses to fulfill online orders and deliver products efficiently.
- **Logistics Expansion:** The 3PL (Third-Party Logistics) sector is witnessing robust growth, with companies increasingly relying on modern warehousing infrastructure to manage inventory and streamline operations.
- **Retail Transformation:** The traditional retail sector is also undergoing a transformation, with a growing focus on omnichannel (online and offline) strategies. This necessitates additional warehousing space to support both brick-and-mortar stores and online fulfillment.
- **Limited Existing Stock:** India currently has a per capita warehousing stock of approximately 2.7 square feet, significantly lower compared to developed economies like the United States (54.2 sq ft), Japan (46.3 sq ft), and China (8 sq ft). This disparity indicates a substantial gap between existing supply and the potential demand for warehousing space.
- **Lack of Grade A Supply:** The supply of Grade A warehousing space, which is most preferred by top-quality tenants, only contributes 40% to the total pan-India stock, while accounting for 60% of leasing demand. This imbalance creates a significant opportunity for developers to cater to the unmet demand for high-quality warehousing facilities.
- **Government Support:** Number of initiatives including granting of infrastructure status for warehousing sector, coming out with INVIT regulations to incentivise private development of infrastructure and budgetary outlay towards Industrial Corridors, National Logistics Policy, etc are directly benefiting warehousing development and ownership. Also, the government boost for manufacturing led growth (with schemes like Productivity Linked Incentive Schemes (PLIs) for different sectors) have boosted industrial output and in turn, have increased demand for warehousing space.

### A Data-Driven Approach to Investment

While the warehousing sector presents an attractive opportunity, a measured and data-driven approach is crucial for successful investment. Here are some key criteria to consider:

- **Tenant Profile and Lease Structure:** Understanding the creditworthiness of potential tenants and the terms of lease agreements is paramount. This ensures stable income flow and minimizes vacancy risks.
- **Strategic Location:** Proximity to major consumption centres, transportation hubs (airports, railways, highways), and upcoming infrastructure projects significantly impacts rental rates and overall investment value.
- **Warehouse Quality and Specifications:** Modern warehouses with features like high clearances, ample dock doors with levelers, fire safety compliance, and energy efficiency attract premium tenants and command higher rentals.
- **Demand-Supply Dynamics:** Evaluating the existing and projected demand for warehousing space in the chosen location helps assess the potential for rental growth and future appreciation of the property value.

### A Promising Future for Warehousing

Indian Warehousing market is currently at an inflection point with some similarities to the office market of the 2000's. With rising FDI inflows (\$10 billion between 2017-2022), higher private capital allocation to the sector and sustained single-digit vacancy levels for Grade A warehousing space, the sector is definitely poised for growth. There has been a sharp rise in demand from end-user tenants for warehousing assets, particularly on a Built to Suit contract basis as per their customized specifications. Global institutional investors like [Blackstone](#), [InvestCorp](#), Morgan Stanley, Mirae Asset and Bain Capital etc are actively investing in warehousing assets through joint ventures and platform deals at entry cap rates of around 7%.

Warehousing clusters like Bhiwandi, situated near Mumbai, and Hoskote, close to Bangalore, are witnessing significant appreciation due to their proximity to major consumption centres. These locations provide sellers with a vantage point from where they cater to the burgeoning demand emanating from major cities and the bulk of the warehousing space take-up is typically by e-commerce players, 3rd party logistics partners (who handle logistics for their clients) and FMCG players.

At the same time, warehousing belts around Pune, Chennai and some parts of NCR have witnessed robust traction due to heightened industrial activity in and around the city. Such warehousing locations are primarily supporting the expanding industrial output alongside the rising retail demand from these cities. Primary tenants in such pockets include OEM manufacturers, electronics players, distributors etc. These locations offer the advantage of lower land costs compared to core city centric locations, while still providing excellent connectivity to transportation networks.

The warehousing boom extends beyond metros. Tier 2 cities like Jaipur, Lucknow, Chandigarh, Coimbatore etc. are witnessing a surge in e-commerce penetration (7 in 10 online shoppers are from Tier 2 cities) and consumer spending driven by rising disposable incomes. This is fuelling the demand for modern warehousing facilities in Tier-2 cities to cater to efficient distribution and last-mile delivery.

With warehousing demand outpacing the supply addition in India for the last five years by a whopping ~40%, alongside healthy growth in market rents by 5% p.a. for Grade A facilities, the uptrend is expected to accelerate in the foreseeable future. This imbalance between demand and supply creates a favorable investment environment with adequate headroom for rental growth and capital appreciation, while also generating stable yields from reputed tenants.

This combination of strong demand drivers, limited high-quality existing stock, significant institutional interest etc. have created the perfect opportunity for alpha generation in the warehousing sector, making it a highly attractive proposition for discerning investors seeking long-term value creation.

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