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Warehousing & Logistics Sector in India

A Brief Analysis

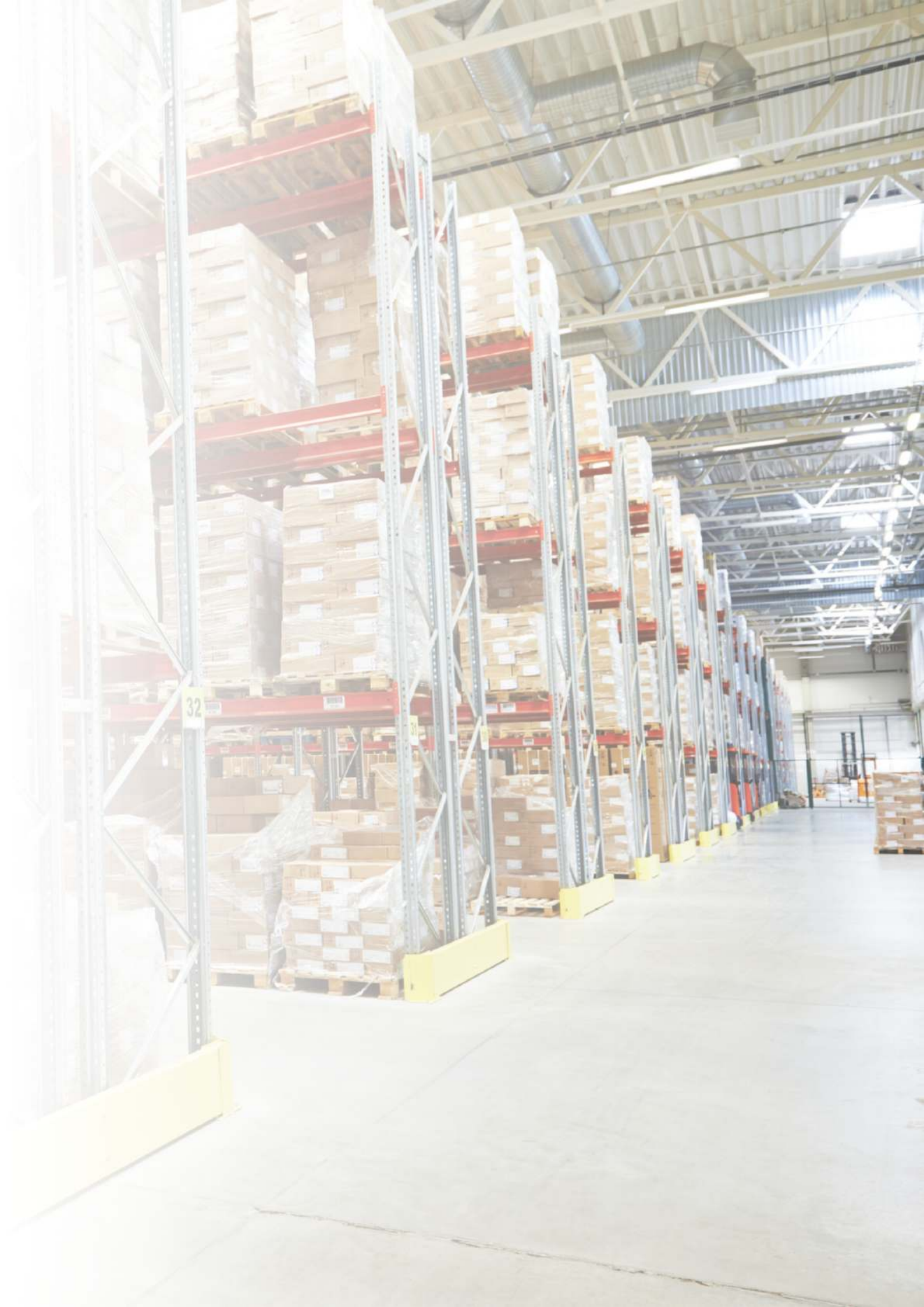


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Preface



Raj Menda
Joint Chairman, FICCI Real Estate Committee and Corporate Chairman, RMZ Corp

The warehousing and logistics sector is a vital pillar of India's economy. The sector plays a critical role in the efficient movement of goods and services across the country and beyond. The last few years have witnessed a significant transformation in this sector, thanks to various policy measures initiated by the government. The initiatives have aimed to address the sector's long-standing challenges, including infrastructure deficits, inadequate technology adoption, and limited financing options. The increased efficiency of the sector has thus created substantial employment opportunities, particularly in the areas of technology and operations.

The government has taken several steps to improve the sector's infrastructure, such as the development of dedicated freight corridors and the expansion of road and rail networks that aim to improve connectivity and reduce transit times. It has also announced setting up logistics parks and warehouses across the country, providing adequate storage facilities for businesses. The digital transformation of the sector has been another crucial policy intervention. Initiatives such as Digital India, BharatNet, and National Logistics Portal would help promote digitalization in the industry.

The warehousing sector has experienced rapid growth in recent years, fueled by the expansion of e-commerce, robust infrastructure, implementation of GST and the rise of organised retail. The recently introduced National Logistics Policy aims to cut India's cost of logistics operations from double digits in GDP to a single digit by 2030. Technology and innovation are increasingly becoming integral to businesses of all genres worldwide, including warehousing. The demand for warehousing facilities is on an upward trajectory, and the increasing adoption of technology, investment in infrastructure, and focus on sustainability will undoubtedly drive growth. Significantly, institutional investments in the sector totaled USD 5.4 billion in the last 4 years. With India's commitment to net zero by 2070, Indian companies, seeking to reduce their carbon footprint, are proactively exploring ESG compliant products and sustainable business practices. The sector is expected to continue playing a crucial role in supporting India's economic growth and development in the foreseeable future.

The future outlook for the warehousing and logistics sector in India is promising. The growth of e-commerce, the expansion of organised retail and the government's focus on agriculture and food processing are also likely to increase the demand for warehousing and logistics facilities. Thus, the sector's growth potential and its impact on India's economy make it an exciting area for businesses and policymakers to explore. This report provides valuable insights into the sector's current state, the key policy interventions, and the future outlook, making it a useful resource for stakeholders interested in the warehousing and logistics industry in India.

Preface



Shrinivas Rao, FRICS

CEO, Vestian

India's position, today, as one of the largest consumer markets in the world highlights the importance of having a strong warehousing infrastructure. With the country's macro-economic performance noted amongst the top global economies and poised to endure global headwinds better when compared to most other emerging markets, it becomes imperative to focus on the functioning of the country's warehousing and logistics industry. Despite rapid growth over the last 4-5 years, the Indian warehousing market remains much smaller in terms of per capita space compared to its developed global counterparts, implying vast prospects to grow in the forthcoming period. Not to mention, the economic benefits that the warehousing sector would offer hold immense significance as well.

A host of important regulations have worked in favour of the warehousing and logistics sector in recent times, such as the implementation of the GST Act, that aided in eliminating inadequacies sizably in the supply chain. Additionally, the digital revolution has transformed consumer behaviour and their expectations, leading to an expansion of the sector. The government's programs like Aatmanirbhar Bharat, Ease of Doing Business, Make in India, and Gati Shakti hold the primary objective of upgrading infrastructure and connectivity, elevating the quality, scale, competitiveness, and effectiveness of the system. These initiatives will not only strengthen the demand for warehousing but also entice foreign investors to invest in the Indian market.

Further, the government has been striving to establish a conducive environment for efficient warehousing by way of actively pursuing reforms as well as introducing new business-friendly measures to encourage investment in top-tier warehousing infrastructure. Besides the National Logistics Policy launched in 2022, there has also been an endeavour to manage the difficulties faced in quality and design of Grade A warehouses through an e-Handbook on warehousing standards. The government has also announced a slew of Multimodal Logistics Parks that will link city transportation with railways, warehouses and inland waterways to allow cost-effective transportation of Exim traffic through multiple modes.

Meanwhile, there has been increased interest evinced on Tier II cities of the country and several large institutional players are putting money into Grade-A warehousing facilities located in smaller cities that have enhanced distribution amenities. Additionally, we envisage significant change in occupiers' demands as they become more aware and committed to environmental, social, and governance (ESG) practices, and anticipate that nearly all industries will face pressure to maintain high ESG standards due to demands from global investors, occupiers, and government policies.

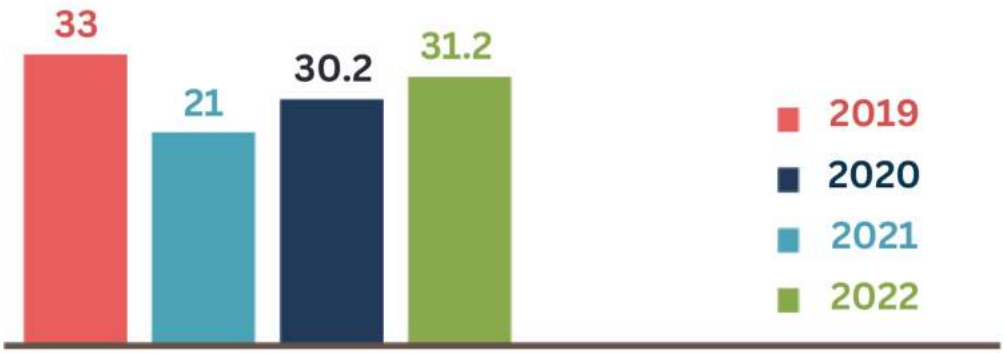
In this report, we endeavour to assess the various warehousing market trends, the key policies that are helping to define the industry, and the developments that we anticipate in the forthcoming period. We hope the report adds value to you and provides thoughtful insights.

Warehousing & logistics market in India: An overview

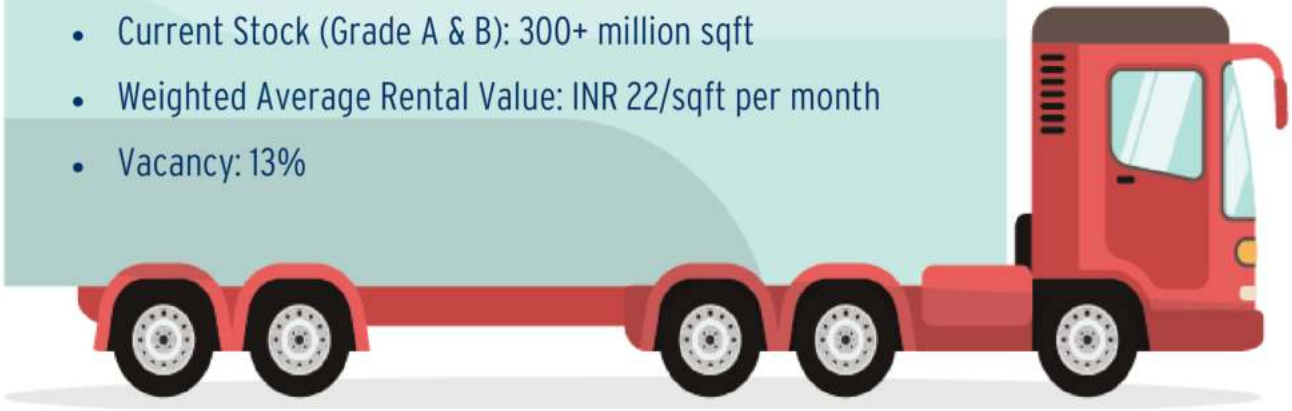
The warehousing and logistics sector in India has experienced remarkable growth in recent years, fuelled by the rapid expansion of e-commerce and the rise of organised retail and the impetus to the manufacturing sector. The COVID-19 crisis, while hampering industries, only served to hasten the warehousing sector's pace of growth with delivery of essential goods gaining increased import during the period. The sector has also been positively impacted by government initiatives such as the implementation of the Goods and Services Tax (GST) and the development of infrastructure projects. With a young and growing population, a thriving economy, and a strategic geographic location, India has the potential to become a major hub for warehousing and logistics in the region. In this context, it is important to explore the key drivers, challenges, and opportunities of this dynamic sector in order to understand its potential and contribute to its sustainable growth. The fact that several reputed city-based developers have entered the fray for development of warehousing projects in the city, bodes well for the growth of the sector.



Absorption Trend Across 7 Key Cities (in million sqft)



- Current Stock (Grade A & B): 300+ million sqft
- Weighted Average Rental Value: INR 22/sqft per month
- Vacancy: 13%



Source: Vestian Research

Several factors have contributed towards this wave of change, such as need for increased efficiency in operations, safety and security of goods and quicker turnarounds, amongst others. Consequently, absorption in the sector has been growing from strength to strength, the robust demand surpassing the supply that has been coming into the market. While transactional activity in the sector was observed at 33 million sqft during the pre-pandemic period of 2019, it understandably came down to 21 million sqft in 2020. The pace, however, picked up considerably in the subsequent period and 2021 saw a substantial YoY growth of 44%. With global recessionary headwinds looming large during 2022 and a relative slowdown in e-commerce demand owing to additional inventories deemed unessential to carry now that the pandemic was on the wane, the sector observed a relatively slow growth, recording total absorption of 31.2 million sqft during the year. Despite the growth pegged at a mere 3%, a number of large deals were inked during the period, spread across multiple warehousing spaces across the country.

In contrast, the weighted average rental value of warehousing space – encompassing both Grade A and Grade B assets, saw considerable YoY growth during the year, led primarily by the demand for Grade A spaces. With the industry moving towards maturity, tenants have begun to raise their demands and the enhancement in offerings have led to higher rentals, which would only stand to rise higher in the forthcoming period. During the year 2022, the weighted average rentals were noted to hover at INR 22/sqft per month. Vacancy rates remained under pressure at around 13%, with the total warehousing space pegged at over 300 million sqft. While economic apprehensions continue to build cautiousness amongst many industries, going forward, the warehousing sector in India would see significant traction led by the growth in manufacturing and e-commerce segment, largely owing to the 'Make in India' concept promoted by the government.

Thus, the future outlook for the warehousing and logistics sector in India is positive, with increasing demand for warehousing facilities, adoption of technology, investment in infrastructure, and focus on sustainability likely to drive growth. The sector is expected to continue to play a crucial role in supporting India's economic growth and development in the years to come.



Key policy initiatives

The Indian warehousing sector has witnessed significant turn of events in the past few years, growing from a largely unorganised sector to emerging as a lucrative avenue for developers willing to build modern warehousing space as a part of their real estate portfolio. The infrastructure status accorded to the warehousing and logistics sector in 2017 paved the way for accessibility to longer tenure financing facilities at a reduced cost of debt, aiding in the development of organised parks. Other factors such as GST implementation, the focus on 'Make in India' initiative, development of multimodal transport networks and industrial corridors, have boosted demand for organised warehousing. We take a look at a few key policies that impacted the sector and are responsible for its transformative progress.



National Logistics Policy (NLP) – Revolutionising India's logistics landscape

India was positioned 44th in the World Bank Logistics Performance Index, 2018, a measure through which the bank ranks countries based on their logistics performance. Thus, to enhance logistics sector competitiveness, the National Logistics Policy (NLP) was unveiled on 17th September 2022. This policy is aimed at facilitating a unified regulatory environment and institutional framework governing the sector. The policy aims to cut India's cost of logistics operations from 13-14% of gross domestic product to single digit by 2030 and elevate the country into the top 25 nations in terms of ranking in World Bank's Logistics Performance Index. This is expected to provide an impetus to the commercial real estate market of the country, including warehouses and industrial parks.

The policy also offers a framework to set up multi-modal logistics parks (MMLP) in important markets, while ensuring faster first and last-mile connectivity. This, essentially, would augment logistics efficiency and support the PM GatiShakti initiative, with digital portals streamlining transportation and facilitating the development of infrastructure such as air freight stations, inland container depots and container freight stations. This will not only ensure improvement in the logistics sector, but also in the areas of export-import, manufacturing and cold storage, as well. The NLP is also cognizant of the warehousing sector as a sub-set of logistics sector, thus recognizing the importance of the sector. At present, 13 states have put in place respective policies governing logistics and warehousing. In the coming years, we expect the pace of logistics infrastructure development to gain further momentum, that will help warehousing and storage to improve as the policy will broaden warehousing linkages covering the urban and hinterlands, creating a robust digital backbone to deliver services in appropriate time and cost.

The NLP can be streamlined to feature six vital elements, the IDS, the ULIP for data integration, the ELOG for procedural simplification, and the SIG for ease in facilitation, infrastructure augmentation, and capacity development.



01



Integration of Digital System (IDS)

There will be digital integration of different systems in various departments such as road transport, railways, aviation, commerce ministries and foreign trade.

02



Unified Logistics Interface Platform (ULIP)

This element will aim at enhancing efficiency and reduce the cost of logistics in India by creating a transparent, one window platform that can provide real-time information to all stakeholders. It will ensure the visibility of multi-modal transport and integrate all the existing systems of various ministries, governing bodies, and private stakeholders with the ULIP system by interconnecting IT systems.

03



Ease of Logistics (ELOG)

This will enable and ensure the ease of logistics business through transparency and accessibility. It will also streamline regulations and make the logistics industry perform efficiently, while the System Improvement Group will be used to monitor all logistics-related projects regularly by facilitating the removal of any hurdle.

04



System Improvement Group (SIG)

The SIG will include members from different departments to assist in the periodic assessment of all logistics-related projects to remove coordination barriers. It will also carry out the annual Logistics Ease Across Different States (LEADS) performance index of states in India to help state governments improve their performance.

05



Logistic Parks

The NLP plans to set up massive logistic parks with warehousing facilities and effective distribution of all under one umbrella. The policy also looks at developing benchmarking service standards and systematizing physical assets among others. It could help people quickly track spare capacity in warehouses, store their products when needed and then move them using readily available transport.

06



Capacity Development

In addition, the policy aims at capacity development with an emphasis on human resources for future industry requirements. The logistics policy thus contemplates bringing all stakeholders under one roof, creating transparency in the system through information sharing, fixing responsibilities in the states through the creation of nodal points, and facilitating benchmarking with international best practices.

Multi-Modal Logistics Park (MMLP) – A game changer

The Ministry of Road Transport and Highways of India (MoRTH) is implementing the development of MMLP under the support of an umbrella SPV called the National Highways Logistics Management Ltd (NHLML). Last year, NHLML, the inland waterways authority of India (IWAI) and the Rail Vikas Nigam Limited (RVNL) signed the trilateral agreement for swift development of modern MMLPs under the Bharatmala Pariyojana across the country. The agreement underlines the cooperation and collaboration model between the three bodies in order to achieve efficiency in logistics movement within the country. The government is presently developing 35 MMLPs under the PM Gati Shakti National Master Plan (NMP), out of which 15 are prioritized in the next three years.

MMLPs can be a significant game changer for the growing Indian warehousing sector by enabling more efficient and effective logistics functions in India. It will not only ease the access to rail, road and waterways but would also boost industry and logistics cluster developments closer to MMLPs, thereby strengthening the industrial and warehousing sector. This enormous regulatory push, if implemented as planned, will set the ground for attracting investments from developers and investors and will act as centres for freight aggregation and distribution, storage and warehousing, providing added incentives such as customs clearances to logistics companies.



Map indicating the location of MMLPs in India



Chennai leads India's first MMLP

Chennai, a key stronghold of logistics in the southern region, will soon boast of India's first MMLP which is strategically located 52 Km from Chennai Port, 80 Km from Ennore Port, and 87 Km from Katupalli Airport. The MMLP will be spread over 184 acres and will get adequate connecting infrastructure support through a SPV formed between central and state agencies. It is estimated to a cater to 7.17 Million Metric Tonne cargo in a period of 45 years with the total estimated project cost pegged at INR 1424 crores. This will be developed in three phases with estimated developer investment of INR 783 crores, the first phase development targeted by 2025.

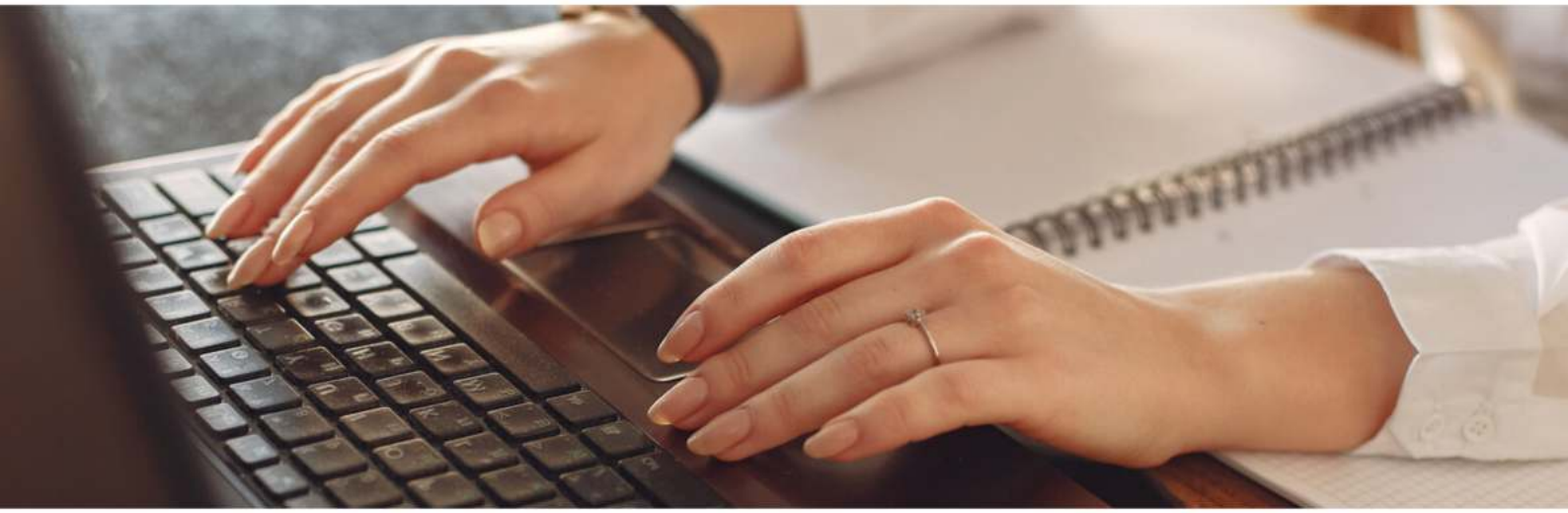
Cold storage schemes - Fostering growth

The cold storage sector, at present, is undergoing a significant transition with factors such as rapid urbanization, changing food habits and lifestyles leading to a surge in online grocery, organized retail and processed food. This diversified consumption pattern and preferences, coupled with the government focusing on food preservation, have boosted the demand for cold storage facilities in the country. Additionally, the pharmaceutical industry in India is the world's largest provider of generic drugs, catering to over 50% of global demand for various vaccines. These factors, amongst others, have primarily fuelled the need for growth in the cold storage segment in India.

As per the Ministry of Agriculture and Farmer welfares, there are around 8,260 cold storages, having 395 Lakh Mt capacity. However, 72% of the total cold storage is installed in only four states of the country, leading to most regions witnessing substantial wastage and spoilage of temperature-sensitive cold storage commodities. Consequently, over 40% of food produced gets wasted in India, costing USD 14 billion every year, as estimated by the United Nations Food and Agriculture Organization. To add to it, most Indian cold storage facilities are for single-purpose storage and only 75% of the installed cold storage capacity is being utilized, according to an assessment by National Centre for Cold-chain Development.

To counter such events, the government has initiated several schemes over the last decade, the most prominent of which being the Pradhan Mantri Kisan Sampada Yojana (PMKSY), a comprehensive package that will lead to the creation of modern infrastructure for efficient supply chain management. This is an umbrella scheme incorporating ongoing schemes like Mega Food Parks, Integrated Cold Chain and Value Addition Infrastructure, Infrastructure for Agro-processing Clusters, Creation/Expansion of Food Processing, Preservation Capacities, and backward and forward linkages schemes. There are 41 Mega Food Park Projects approved under the Mega Food Park Scheme, which are currently at various stages of development and there are approximately 356 Cold Chain infrastructure projects. These Mega food park scheme and cold chain schemes aims to provide create modern infrastructure facilities for food processing and the establishment of a strong cold chain facility for agricultural, horticultural, dairy, fish & marine, poultry & meat products by establishing linkage from farm gate to the consumer, through efficient storage, transportation and minimal processing. These schemes will boost the production and cold storage for various sectors, thereby reducing the burden of capital-intensive infrastructure cost.

Other proactive measures by the central government, like profit-linked tax deduction and allowing FDI along with financial assistance, will also augment effective integrated cold chain management, fostering growth in the cold storage market.



E-handbook on Warehousing Standards - A move towards standardisation

The Department for Promotion of Industry and Internal Trade has released an e-book on warehousing standards, along with the NLP. This move is expected to lead to increased awareness in the industry and easier access to secured credit from banks for developing infrastructure. It will organise existing standards and global best practices to lower costs, enhance efficiency and ascertain global competitiveness of Indian goods. While NLP would complement PM Gati Shakti, standardisation of various aspects of warehousing will eventually lead to optimisation and productivity advantages. The e-handbook, thus, envisages to act as an enabling and guiding document for facility developers and regulatory agencies to identify and implement facility and sector-specific standards. Going forward, these standards could be referred to while developing warehousing projects as well as in proposing upgradation of existing infrastructure or implementing newer technologies.

Institutional investment in warehousing & logistics

The warehousing sector has garnered substantial interest amongst the real estate asset classes competing for attention for investment, one of the primary reasons being the fast-paced growth of the e-commerce sector in the country. An accelerated adoption of e-commerce and same/next-day delivery, decentralised demand due to this rapid digitisation, and the consequent higher penetration of e-commerce and omni-channel retail in hitherto under-developed and under-serviced locations further secured the warehousing and logistics sector's status as one of the most crucial lifelines. Of late, increased focus on the manufacturing sector, coupled with factors such as planned infrastructure development through comprehensive programmes encompassing road, rail and waterways, as well as foreign investor friendly policy reforms making compliance easier, have made the warehousing sector attractive to prospective investors.



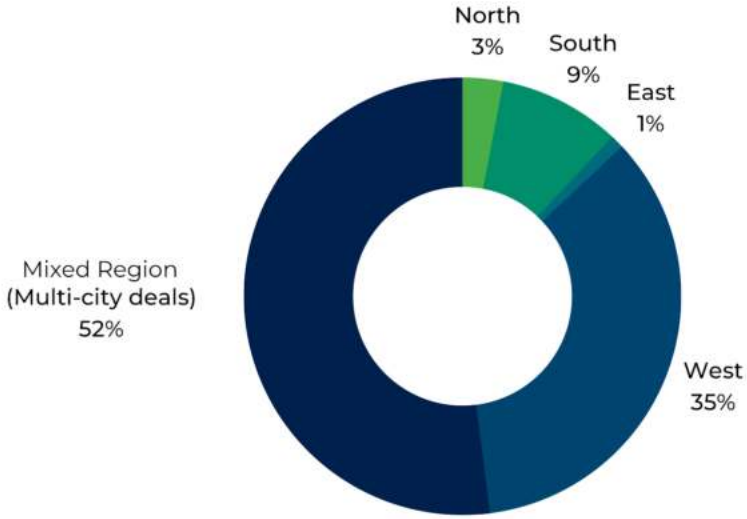
Institutional Investment in Warehousing in India: A Snapshot

Investment Trend (In USD Million)



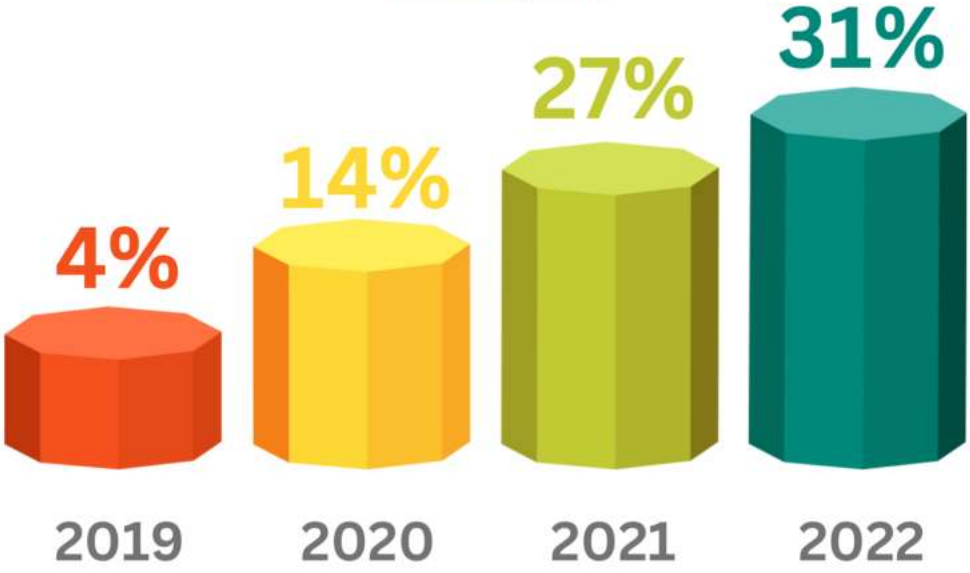
Source: Vestian Research

Region-wise Share of Investment (2019 – 2022)



Source: Vestian Research

Share of warehousing & logistics segment in total real estate investment



Source: Vestian Research

Select Investment Deals in Warehousing & Logistics (2019-2022)

Investor	Developer/Partner	Location	Approx. Amount (in USD million)	Year
Blackstone	Hiranandani Greenbase	Multiple cities	351	2019
Blackstone	Allcargo Logistics & Industrial Parks	Multiple cities	53.5	2020
IndoSpace	KSH infra	Pune	134.5	2021
InvestCorp Group	NDR Warehousing	Multiple cities	55	2022
CDPQ, Bain Capital	Lodha Group	Multiple cities	1000	2022

- In the span of the past four years (2019-2022), the warehousing and logistics sector has garnered a total institutional investment of USD 5.4 billion, out of which a significant 35% share was attributed to 2022 alone.
- With COVID-19 crisis taking precedence, the year 2020 saw substantial decline in warehousing investment, to the tune of 38%, over the previous year. Investments in the segment almost dried up, particularly during the first half of 2020, as investors turned cautious due to the pandemic, that severely affected an already subdued economy.
- However, the warehousing and logistics sector regained its momentum in the subsequent period and both 2021 and 2022 saw a number of large deals inked, signifying investor confidence in the growth potential of the sector.

- Interestingly, the share of warehousing investment in both 2021 and 2022 accounted for the second highest share of institutional investment in real estate, to the tune of 27% and 31% respectively, surpassing other asset classes such as residential and retail. Its share was next only to the commercial asset class segment. This, given the backdrop of a slowing economy and global recessionary headwinds, bodes well for the warehousing market growth prospects.

- The year 2022, in particular, witnessed a whopping 44% YoY upsurge, the growth chiefly attributable to a marquee deal of USD 1 billion between Lodha Group, CDPQ, and Bain Capital.

- Analysing the spread of warehousing investment during the four-year period 2019 to 2022, the majority share of the investment - almost 52%, was distributed across multiple cities in the country, depicting investors' decision to diversify their portfolio instead of focusing on one region alone. It also showed the investors' growing confidence in the Tier II cities of the country.

- The western region of the country - led by Mumbai, Pune and Becharji, a small town in Gujarat - saw the second highest institutional investment in warehousing during the four-year period 2019-2022, accounting for 35% share of the total investment in the sector.

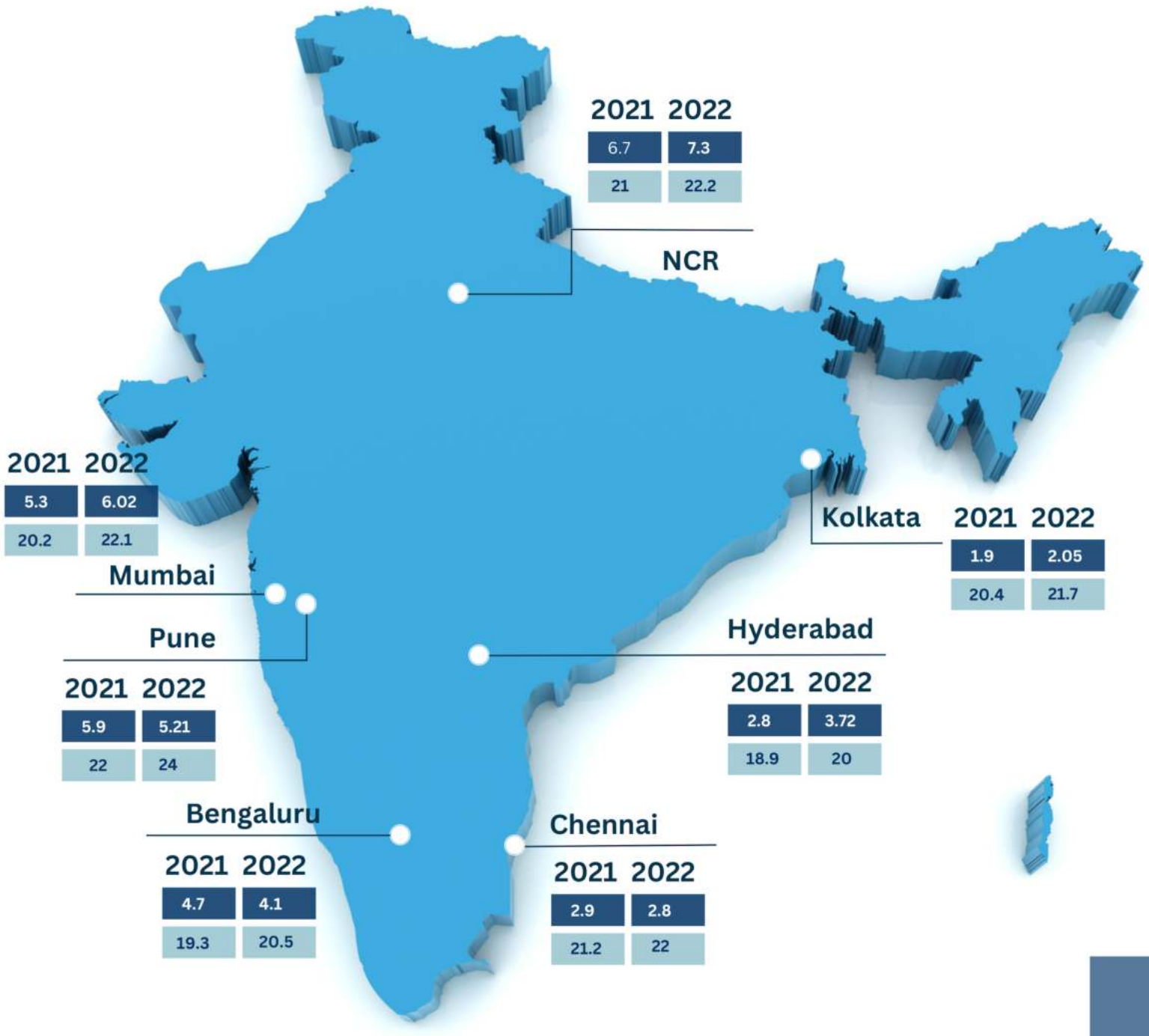


The past year 2022: Key observations

The year 2022 saw a slew of global events such as the Russia-Ukraine war and rising costs amidst inflationary trends, that impacted the supply chain, creating apprehensions in the business environment. Nonetheless, the seven key cities of the country continued to drive transaction activity posting a total absorption of 31.2 million sqft during the year, which represent a marginal 3% growth over the absorption in the previous year 2021. Around 45% of the absorption quantum was attributed to 3PL companies, primarily due to the rising trend of outsourcing logistics services, that lead many companies to partner with 3PL players who provide end-to-end supply chain solutions, including warehousing and distribution. Also, a large share of the transactions was accounted for by Grade A warehousing space - a positive development that bodes well for the sector, which till a few years back was predominantly recognised as brick-and-mortar shelters.

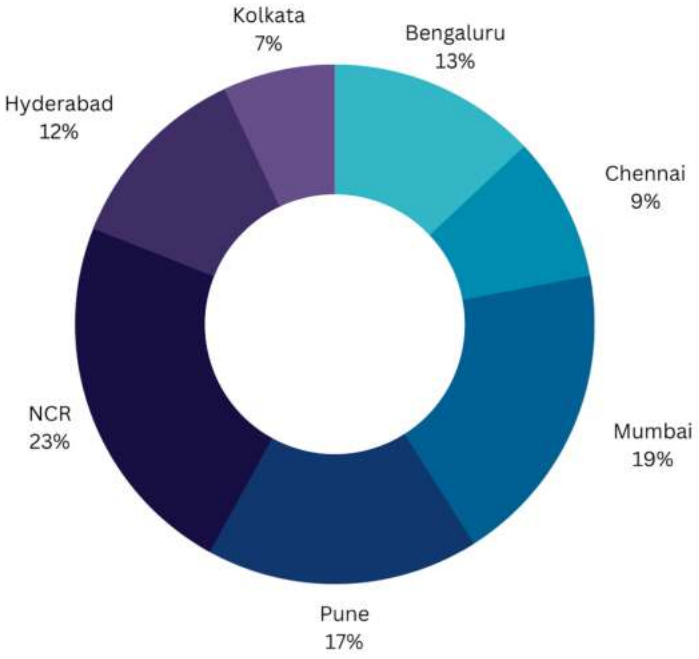


City Wise Absorption & Weighted Average Rentals (2022 Vs 2021)



Source: Vestian Research

City - Wise Share in Absorption (2022)



Source: Vestian Research

Weighted Average Rental Value of Transacted Deals in 2022

Cities	Weighted Average Rental Value (INR/sqft/month)	YoY change(%)
Bengaluru	20.5	6.2%
Chennai	22.0	3.8%
Mumbai	22.1	9.4%
Pune	24.0	9.1%
NCR	23.4	6.8%
Hyderabad	20.0	5.8%
Kolkata	21.7	6.4%

Source: Vestian Research

- The year 2022 saw continued yet relatively slow growth in the warehousing and logistics sector due to the potential impact of the global recession as well as lower velocity of e-commerce demand as the pandemic situation improved. A total absorption of 31.2 million sqft was recorded across the seven key cities of the country - Mumbai, NCR, Bengaluru, Chennai, Hyderabad, Pune and Kolkata.

- While this depicted a marginal 3% growth over the absorption in the previous year 2021, it almost matched of the pre-pandemic absorption in 2019 - falling short by a mere 5%, thus signifying the sector's fast paced recovery despite a slow economic environment.

- NCR, Pune and Mumbai led the chart, altogether accounting for 59% share of the total absorption during the year.

- NCR accounted for the highest volume of leased deals in warehousing and logistics space during 2022, its absorption recorded at 7.3 million sqft denoting 23% share of the total absorption. Mumbai and Pune followed NCR with their shares recorded at 19% and 17% respectively.

- The southern cities of Bengaluru, Chennai and Hyderabad accounted for 34% share of the total absorption in 2022.

- On the occupier front, 3PL players accounted for the majority share of 45% in the total absorption in 2022, that translated to approximately 14 million sqft of warehousing space taken up by the segment. This significant quantum could be attributed to the segment catering to increased demand from stakeholders in the supply chain as well as buoyed by the necessity to bolster distribution facilities.

- It was followed by the manufacturing segment accounting for 15.5% in the total absorption, translating into 4.8 million of warehousing space. The impetus provided to the manufacturing sector, given the government's endeavour to enable the country to achieve global competitiveness and usher in industrial growth, has accentuated the sector's need for space.

- With improving occupier and investor sentiment in 2022, coupled with consistent demand for high-quality assets and an upsurge in input expenses, rental values for warehousing space saw a fair rate of increase across the key micro-markets in the country.

- On the weighted average rental value front, Mumbai witnessed growth of 9.4% in 2022 when compared with the rental values a year ago in 2021.

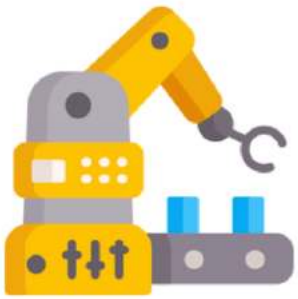
- Pune and NCR also saw YoY increase in weighted average rentals in 2022, to the tune of 9.1% and 6.8% respectively.

Sector-wise Top 3 Demand Drivers in 2022



3PL

45%



Manufacturing

15.5%



Retail

12%

City-wise Top 3 Absorption Share in 2022



NCR

23%



PUNE

17%



MUMBAI

19%

Future trends

The warehousing industry in India is expected to witness significant growth and transformation in the coming years. Despite rapid growth over the last 4-5 years, the Indian warehousing market remains much smaller in terms of per capita space compared to its developed global counterparts such as the US, UK, and the neighbouring nation of China, hence portending vast prospects to grow in the forthcoming period. Here are some of the key trends that are likely to shape the future of warehousing in India:





Technology-led innovation:

With technology increasingly becoming an integral part of businesses all across the world, the warehousing sector, too, has recognised the pertinent need for innovation. As the demand for faster and more efficient warehousing solutions increases, automation and robotics will play a key role in transforming the industry. With the help of advanced technologies like robotics, drones, and automated storage and retrieval systems (ASRS), warehouses will be able to increase their operational efficiency and reduce human error. This will lead to faster processing times, higher accuracy, and improved safety standards. As per Bank of America estimates, by 2025, around 45% of all manufacturing tasks will be executed by robotic technology. In India, warehouse automation has just scratched the surface and there is immense potential for the industry to take off.

Meanwhile, the advent of Internet of Things (IoT) in warehouse and logistics management has turned out to be a veritable boon for warehouse managers, as IoT devices, along with sensors and RFIDs provide real-time tracking and monitoring of inventory, allowing them to understand the accurate location of a product, thereby ensuring faster operations. IoT-enabled sensors and devices can help warehouses to optimize their operations by collecting data on inventory levels, temperature, humidity, and other environmental factors. This can help companies to reduce waste, improve supply chain visibility, and enhance customer satisfaction. Today, innovations such as Quick Response Code and other IT-enabled machine learning technologies are being offered as smart solutions to encode data to computer-compatible digital data.

However, despite the imminent adoption of automation and technology in warehouse management, there are quite a few roadblocks towards its successful and willing implementation - one of the major challenges being inconsistency in the utilization of technology in the country. Unlike the western countries, India would take time to arrive at a seamless integration of technology, considering the profusion of cheap labour in the region and the resistance shown by organisations to invest capital readily, owing to initial high cost involved in such infrastructure.

Foray into Tier II cities:

There has been a notable trend of warehousing and logistics space providers implying interest in expanding their operations to Tier II and other smaller cities in India, some of the major players already having established their set-ups in cities such as Coimbatore, Indore, Nagpur, Lucknow, Jaipur, Bhubaneswar, Kochi, Madurai, Varanasi, Ludhiana, and Patna. This is primarily driven by the increasing demand for storage and logistics facilities in these areas, as well as the government's focus on developing infrastructure and promoting industrial growth in non-metro cities. A major reason for this trend is the availability of land at lower prices in these cities compared to the metros. This makes it more viable for companies to set up large warehouses and distribution centres, which are crucial for efficient supply chain management. Additionally, the lower cost of labour and operating expenses in these areas also makes them attractive destinations for companies looking to expand their operations.

Another factor driving the growth of industrial and warehousing development in smaller cities is the increasing adoption of e-commerce and online retail in these areas. With more and more consumers shopping online, there is a growing need for efficient logistics and delivery networks, which can be provided by these facilities. E-commerce giants such as Amazon and Flipkart have recognized the latent potential of these cities and have their operations up and running there while developers such as IndoSpace and Ascendas have also set up large industrial parks in these areas, catering to the needs of multiple companies.

While there are several benefits to expanding warehousing operations into tier II and smaller cities in India, there are also several challenges that companies may face, such as dearth of adequate physical infrastructure and skilled labour. Tier II cities may not have the same level of market access as the metros, which can limit the potential customer base for warehousing companies. This can result in lower demand and reduced revenue potential. These potential drawbacks notwithstanding, the trend of warehousing companies and developers entering Tier II and smaller cities in India is likely to continue in the coming years, driven by the growth of e-commerce, increasing demand for logistics infrastructure, and government support for industrial development in these areas.





In-city warehousing:

In-city warehousing is becoming increasingly important in India due to the rapid urbanization, growth of e-commerce, last-mile delivery challenges, limited space, and traffic congestion. Companies that adopt in-city warehousing strategies are likely to be better equipped to meet the evolving needs of customers, reduce transportation costs, and improve sustainability. While in-city warehousing in India offers many benefits, there are several challenges that need to be addressed for its successful development. Addressing these challenges will require collaboration between businesses, government, and other stakeholders to create a supportive environment for in-city warehousing.

Multi-level Warehousing:

With land becoming scarce in major cities, multi-level warehousing is becoming a popular solution for companies looking to maximize their storage space. These multi-storeyed warehouses can be built to store goods vertically, reducing the need for horizontal space. Presently, with the need for small distribution centres gathering pace, multi-level warehousing projects can be developed across different locations within a city, leading to increased traction in the e-commerce segment and augmenting their last mile delivery. However, the infrastructure expenses to develop/overhaul such structures are fairly high. While it requires further maturity in the e-commerce segment before multi-level warehousing can take off seriously in India, we believe it won't be long before more developers participate in such a venture.

ESG in warehousing:

The warehousing sector in India contributes to a significant portion of the total greenhouse gas emissions of the country and the industry's CO2 emissions have worsened over the years. It produces an enormous number of environmental pollutants due to heating, cooling and lighting, which are required for the maintenance of the stock. In recent years, Indian companies have become increasingly conscious of their carbon footprint and are keen to explore ESG linked products as they want to engage in more sustainable business practices. Consequently, ESG has become pertinent for warehousing space stakeholders to have long-term prospects and sustainability of a business, which would eventually contribute to commitment of India's net zero target by 2070. Thus, with all the three aspects - environmental, social and governance measures, having a critical role to play in the business environment, investors today are looking at ESG ratings which are evaluated by the compliancy of the norms (building codes/fire norms), stringent no corruption practices, reduction in carbon emissions, green initiatives, etc.

To conform with such requirements, several developers are incorporating Building Management Systems while constructing warehousing projects, that essentially enable operational savings, better air quality and prevention of any damage to the inventory.

Going forward, we envisage there will be a significant change in occupiers' demands as they become more aware of committed ESG practices. They will progressively want to relocate to parks that support their sustainability goals. We anticipate that nearly all industries will face pressure to maintain high ESG standards due to demands from global investors, occupiers, and government policies.



About **FICCI**

Established in 1927, FICCI is the largest and oldest apex business organisation in India. Its history is closely interwoven with India's struggle for independence, its industrialisation, and its emergence as one of the most rapidly growing global economies. A not-for-profit organisation, FICCI is the voice of India's business and industry. From influencing policy to encouraging debate, engaging with policy makers and civil society, FICCI articulates the views and concerns of industry. It serves its members from the Indian private and public corporate sectors and multinational companies, drawing its strength from diverse regional chambers of commerce and industry across states, reaching out to over 250,000 companies. FICCI provides a platform for networking and consensus building within and across sectors and is the first port of call for Indian industry, policy makers and the international business community.



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VESTIAN

About **Vestian**

Vestian, is a contemporary workplace solutions firm that specializes in providing occupier-focused solutions for commercial, residential, industrial, retail and hospitality sectors. Our service portfolio includes Integrated Service Delivery, Project Services, Investment & Consultancy Services, Transaction Advisory Services, Retail Business Solutions & Integrated Facilities Management Services.

We align and measure our key deliverables based on clients' strategic business goals. Our commitment to achieve excellence and consistency in our service delivery models has helped us attain high standards of quality and raise the bar for the industry. Our experienced team has the required expertise and exposure in different sectors. Combining global best practices and local knowledge, the team provides an integrated solution for all real estate requirements. Moreover, the belief in our corporate philosophy - Delivering Measurable Results - helps us to provide solutions, in keeping with global delivery standards. Vestian is certified in both quality management systems and environmental health & safety standards - ISO 9001, ISO 14001, ISO 37001 and ISO 45001. We are also a member of the Indian Green Building Council.

Investment & Consultancy Services (ICS) is the Research, Consultancy and Investment solutions arm of Vestian. We provide value-added end-to-end investment advisory and consultancy services. Our clients include multinational and Indian corporations, investors, private equity (PE) funds, global and national financial institutions, government organizations, international, national and local real estate developers and landlords in tier I, II and III cities across the country.

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