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BUILDING
FRESH FOOD
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**WAREHOUSING
SPACE**
DEMAND INCREASES IN
TIER-2 & 3 CITIES

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COVID-19 VACCINE DISTRIBUTION

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Warehousing Space demand increases in tier-2 & 3 cities

With continuous technological advancement and reform-led policy measures, warehousing has become an integral part of logistics network. Moreover, the crisis has brought smaller cities into the limelight to emerge as preferred locations for the warehousing industry. The warehousing sector, which was mainly concentrated in tier-1 cities, had started shifting to tier-2 locations after certain policy initiatives.



Kalpana Lohumi

Mini warehousing hubs

→ The warehousing sector has witnessed a threefold transaction growth during FY 2017 and 2019, across top eight metro cities. However, with the pandemic being a reality now and with movement of people being restricted, smaller cities could be the mini warehousing hubs

Warehousing industry in India has come a long way from seeing a strong demand for warehousing space in top eight metro cities to tier-2 and 3 cities gaining attention. The warehousing sector has witnessed a threefold transaction growth during FY 2017 and 2019, across top eight metro cities.

Early this year the sector was expected to add around 40 million sq ft space across the top eight cities. However, with the pandemic being a reality now and with movement of people being restricted, smaller cities could be the

mini warehousing hubs. Cargo Talk delves into the research and discusses some important facts like whether developing Grade-A warehousing in smaller cities would be successful, reasons behind the rise in demand for Grade-A warehousing in the smaller cities and what opportunities could it bring to the country.

As revealed in ANAROCK's latest report titled 'Indian Industrial & Logistics – Gearing up a Global Manufacturing Hub', amidst growing clamour for making India a global manufacturing hub, warehousing clusters are seen

to be expanding rapidly beyond the top cities to the tier-2 and 3 cities of India. Commenting on this, **Shobhit Agarwal**, MD & CEO, ANAROCK Capital, says, "Demand for small and multi-location warehouses is expected to rise significantly. Majority of these emerging clusters are in line with the industrial and freight corridors being developed in the country. The emerging tier-2 and 3 warehousing clusters include Ludhiana, Ambala, Lucknow, Siliguri, Guwahati, Bhubaneswar, Vishakhapatnam, Vijaywada, Coimbatore, Kochi, Nagpur, Indore, Jaipur and Dholera."

Explaining the need of the hour, **Abhijit Malkani**, Co-CEO & Country Head, ESR India, says, "Tier-2 & 3 cities are becoming emerging markets for warehousing due to the rapid adoption of e-commerce during the pandemic. Logistics sector was already on a consolidation path, the pandemic has led companies to rethink their supply chain strategies and optimise their delivery time to reach customers. Tier-1 cities were the key focus area for developers, the current expansion needs driven by e-commerce and 3PL companies have led to the development of Grade-A logistics real estate in tier-2 cities. At ESR India, we have expanded into tier-2 markets such as Nagpur, Rajpura and Jhajjar to cater to an increasing demand for Grade-A spaces in these markets and we are actively looking at opportunities in other key tier-2 markets."

Expounding the changed dynamics of logistics industry, **Alexandre Amine Soufiani**, Managing Director, FM Logistic India, points out, "Over the years, the Indian warehousing and logistics industry has achieved significant growth in terms of both size and scope. Gone are the days when warehousing was only about providing space to store products and basic handling. Today, businesses are on the

lookout for logistics service providers who are capable of integrating more technology, process and automation in their warehousing solutions and helping them to move closer to their end consumers. Faster time to market and ever increasing demand from time-sensitive e-commerce sector has changed the dynamics of the logistics industry. The logistics sector has become more organised as well as standardised. Grade-A warehouses and increasing use of technology are the stepping stones in this process as they provide ease in time-bound supply, customer satisfaction and risk-free environment.

The booming e-commerce market and a robust demand for the strengthening of retail supply chains across industries, has bolstered the demand for Grade-A warehousing facilities across the country. More so the ongoing COVID-19 pandemic has led to the increase in demand for quality warehousing space. E-commerce and omni-channel operations have fuelled this growth. Today, there has been a tremendous shift in consumer behaviour as the majority of customers across the country – even those in tier-2 and tier-3 cities, have resorted to online shopping. Customers today need to have access to their required products within the shortest

period of time. In order to deal with such situations, companies have understood the importance of having a real-time pulse of the market and are investing in Grade-A warehousing facilities in smaller cities. This has helped them to cater to the rapidly increasing customer base in these cities. FM Logistic India is focussed on developing Grade-A Multi Clients Facilities (MCF) in the most important economic zones in India."

According to **R K Narayan**, Chief Operating Officer, Allcargo Logistics and Industrial Parks, "Tier-1 and 2 cities in India have emerged as key epicentres of consumption and drivers of economic growth in recent years. It is led by rising levels of disposable income, demographic dividend of a young brand-conscious population and heightened aspirations for a better standard of living. Building a robust Grade-A warehousing infrastructure across the smaller cities of India can offer seamless intra-state and inter-state cargo movement. By reducing lead times in last-mile deliveries, it can facilitate optimisation of costs. A well-maintained and efficiently run Grade-A warehousing network across the small towns of India can play a crucial role in rebalancing supply chains and restoring economic growth to pre-pandemic levels."



Shobhit Agarwal
MD & CEO
ANAROCK Capital

🔴 Demand for small and multi-location warehouses is expected to rise significantly. Majority of these emerging clusters are in line with the industrial and freight corridors being developed in the country 🔴





Abhijit Malkani
Co-CEO & Country Head
ESR India

🔥 **We have expanded into tier-2 markets such as Nagpur, Rajpura and Jhajjar to cater to an increasing demand for Grade-A spaces in these markets and we are actively looking at opportunities in other key tier-2 markets** 🔥



Alexandre Amine Soufiani
Managing Director
FM Logistic India

🔥 **Companies have understood the importance of having a real-time pulse of the market and are investing in Grade-A warehousing facilities in smaller cities. This has helped them to cater to the increasing customer base** 🔥

"The COVID-19 pandemic has heightened the demand of warehousing and logistics due to a shift in the buying patterns in tier-2 locations on e-commerce," says **Jasmine Bhatia**, National Head – Industrial, Land & Logistics Services & Senior Executive Director, Advisory & Transaction Services

India, CBRE. He continues, "CBRE believes that brands and manufacturers, especially those engaged in the production of essential items & FMCG, may tend to manage higher inventory levels closer to consumption points. Along with this, a faster turn-around-time (TAT) for better service level offering to consumers will push the demand for Grade-A warehouses and infrastructure in smaller cities."

Talking about the challenges which might come in developing Grade-A warehousing in smaller cities, **Venkat Reddy**, Business Head – Warehousing, Chowgule Brothers, says, "Grade-A warehousing with basic amenities in smaller cities can facilitate reverse migration and address the issue of shortage of workforce. The logistics provider does not have to worry about increasing real estate construction costs and can provide prospective customers a mechanised and automated warehouse facility to improve the efficiency and optimise costs by going vertical and using Material Handling Equipment (MHEs) etc. Currently, smaller cities lack Grade-A warehouse infrastructure. However, given India's growth trajectory and increasing consumer demand, the requirement for such warehouse infrastructure is expected to grow.

Warehouse users are looking at centralising their warehouses to benefit from economies of scale but the end consumers' requirement for quick delivery would mean small warehouse facilities would be required closer to consumption areas which currently are smaller cities."

Praveen Vashistha, Founder & Director of Gxpress, explains the benefits of setting up Grade-A warehouses in smaller cities. He says, "The e-commerce market is growing four times faster than the world economy and is projected to grow to US\$ 4.88 trillion in 2021. Due to the growth of e-commerce segment, the need for the state-of-the-art warehouses has grown leaps

Compliant spaces

→ The formalisation of the I&L sector in India, coupled with increasing demand for quality space, would result in developers building compliant, large-sized spaces and would attract global as well as domestic investors



R K Narayan
Chief Operating Officer
Allcargo Logistics and Industrial Parks

🔥 **A well-maintained and efficiently run Grade-A warehousing network across the small towns of India can play a crucial role in rebalancing supply chains and restoring economic growth to pre-pandemic levels** 🔥

and bounds in India with estimates predicting the construction of Grade-A warehouses over 300 million square feet of land by 2022. It can be really successful in the longer run as this can contribute in increasing the GDP of the country. Moreover, India can increase its manufacturing share, thus generating



Jasmine Bhatia
National Head – Industrial, Land & Logistics
Services & Senior Executive Director, Advisory
& Transaction Services India, CBRE

🔥 **CBRE believes that brands and manufacturers, especially those engaged in the production of essential items & FMCG, may tend to manage higher inventory levels closer to consumption points** 🔥

more sellers. Since the warehouses will be developed in smaller cities, sellers can reach more customers, thus giving a ballooning effect on demand of their products. Since the transit team will decrease, it will help them give a superior customer experience, thus increasing the revenue of the company.

Sellers can avail better distribution facilities and return management. Also, they can benefit with the costs in the smaller cities as compared to high fees charged in the warehouses in big cities."

"With the infusion of artificial intelligence, companies want to adopt automation to further increase their efficiency, consolidate their businesses, and increase safety initiatives and increase contactless business processes, adaptability to implement newer construction technology and Grade-A spaces are more adaptive for such implementations. Grade-A spaces provide better environment for their workforces. Rising demand from 3PLs, pharma, e-commerce players is the key growth driver of consolidated, efficient and strategically located Grade-A warehouses as contactless and digitally managed spaces are gaining prominence due to the pandemic," says Malkani.

Explaining how the trend which started in tier-1 cities is now cascading to tier-2 cities as well, Bhatia shares, "Large integrated parks offering expandability across the country, backed by institutional investors are expected to see traction in demand. Better standards and specifications, availability

Government's relentless efforts

➔ Due to the current government's incessant efforts, total approvals needed to set up a warehouse in the country have been reduced from 33 in 2015 to 15 as on 2019-end



Venkat Reddy
Business Head – Warehousing
Chowgule Brothers

Warehouse users are looking at centralising their warehouses but the end consumers' requirement for quick delivery would mean small warehouse facilities would be required closer to consumption areas

of technology and certification, project management and monitoring services by professional agencies, has led to warehouses which are not only planned better but also offer better productivity and throughput."

Sharing a different angle to this, Soufiani adds, "The Government of India's focus on making India a global manufacturing hub has caused warehousing clusters to expand rapidly beyond the top cities and into tier-2 and 3 cities. Also, as most of the tier-2 and 3 cities in India are aligned with industrial hubs the demand for Grade-A warehouses in these cities has increased substantially. Correspondingly, the increasing internet penetration in rural areas, in addition to rising household income and the government's push on digital in rural areas, has increased the pressure on manufacturing organisations to move closer to their customer base in these areas. In this endeavour to cater to the hugely untapped rural customer base, organisations have realised the importance of developing quality and world-class warehousing facilities as these facilities not only offer operational excellence but also facilitate cost optimisation."

Echoing similar views, Narayan adds, "The demand for Grade-A warehousing by e-commerce companies in smaller

cities of India has increased significantly and is likely to gain greater traction as the e-commerce players place emphasis on stocking large amounts and wider array of inventories near customer locations. With space constraints in big cities like Mumbai and Bengaluru, e-tailers are scouting for warehousing sites in smaller cities for building multi-level Grade-A warehouses that serve as spokes to the large regional distribution centres. As a large number of consumers in small cities across India demand same-day deliveries, in-city warehouses are also fast emerging as distribution hubs."

"One key emerging trend recently is increased demand for Grade-A warehousing properties across the country," shares Agarwal, in adding,

"Notably, as per ANAROCK data, there is more than 110 mn sq ft of Grade-A warehousing stock available across the country, of which majority is in the top eight cities. 3PL and logistics and e-commerce are the largest occupiers of warehousing space. Thus, there is a high opportunity for Grade-A warehousing development in the smaller cities amidst rising demand. Investors are also upbeat on the growth of warehousing in India and are presently working closely with developers to identify and invest in the sector. So far, nearly US\$ 7 billion worth platforms have been created for the warehousing sector since 2015."

"The drastic increase can also be attributed to the implementation of various rules for the people working





in warehouses. Also, the government has rolled out various policies like GST, assigning infrastructure status; all factors have laid the platform for the fuelling demand for Grade-A warehouses," says Vashistha.

What opportunities could it bring to the country?

"Since warehouses are important nodal points in the e-commerce supply chain, it is a necessity for logistics companies and enterprises to develop more Grade-A warehouses, thus increasing the export share for India and more sellers will be able to showcase their products overseas. With warehouses in smaller cities, more employment can be generated, improving the overall economy of the country," feels Vashistha.

"A resilient Indian supply chain and warehousing ecosystem could position India as a pivotal player in the global value chain," believes Narayan. He says, "The increasing consolidation and institutionalisation in logistics and warehousing industry is attracting increased thrust not just by Indian companies but several global supply chain companies. This has also facilitated increased inflows of funds from global investors in the country's warehousing sector."



Praveen Vashistha
Founder & Director
Gxpress

Due to the growth of e-commerce segment, the need for the state-of-the-art warehouses has grown leaps and bounds in India with estimates predicting the construction of Grade-A warehouses over 300 million square feet of land by 2022

"COVID-19 has also exposed the challenges of consolidation within the warehousing sector. Going forward, the market is expected to decentralise to mitigate future disruption, ensure business continuity, and ease operations. To contain the cost and

maintain social distancing norms, the rise of automation is also expected. Moreover, with e-commerce likely to flourish in the post-COVID regime, there may be a rise in the online businesses. This may eventually lead to surge in new warehousing demand along with rising trend of multi-level warehouses within the city limits," notifies Agarwal.

"Investors are upbeat on warehousing sector and are working closely with developers to identify investment opportunities with initiatives such as 'Atmanirbhar Bharat' by the government to encourage usage of locally manufactured goods. Owing to robust demand of e-commerce and other consumer-led goods in smaller cities, the segment is likely to bounce back quicker than other segments as developers are keen on setting up fulfilment centres and Grade-A warehouses to absorb demand. According to a recent report by Collier International, the inflow from both foreign and domestic funds is expected to grow over the next 2-3 years as existing participants expand their portfolio and new players enter the market. With its large labour force and domestic consumer market, India is going to be a big benefactor and is expected to garner its fair share of the global supply chain market in the next 3-5 years," concludes Malkani.

Cost of logistics

→ India's high logistics cost – at 14 per cent of its GDP – is still better than China's 15 per cent

→ The time taken to construct a warehouse has been brought down to 3.5 months from the previous 6 months during the same period