REPORT

GRI LOGISTICS & WAREHOUSING INDIA 2023

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INTRODUCTION

This report provides a summary of the discussions held during **GRI Logistics and Warehousing India 2023**, an event organised by GRI Club and co-hosted by **Khaitan & Co** which took place on April 26th, 2023 at the One World Center in Mumbai.

The event brought together **key stakeholders** in the warehousing and logistics industry to discuss a **wide range of topics**, from investment strategies and capital flows to future occupier demands and last-mile investments. This report summarises the panel discussions and highlights **the key takeaways** from each topic, including the best opportunities and the biggest hurdles faced by the industry in India.

Taking place behind closed doors, with no press and no presentations, GRI Club events feature **a unique format** that is crafted to facilitate free-flowing discussions among **top industry decision makers**, enabling the executives to share their insights into the latest trends, developments, and challenges coming to the market.

Mr. Anshul Singhal, CEO of **Welspun One** opened the event with a delightful story of Warehousing's growing importance in India that flowed into an exciting Master Session on investment strategies in this Sector. Subsequent sessions covered issues including **future-ready warehouse trends, last-mile investments, digitization, multi-modal transportation, and more**.

"By engaging in the right strategies, there is a substantial opportunity for India to bring in some serious capital"

Gustavo Favaron
GRI Club CEO & Managing Partner

For more insights into the Indian markets, attend **India GRI 2023**, GRI's flagship event for real estate leaders.

INVESTMENT STRATEGIES
CAPITAL FLOWS IN A GROWTH PATH OR MORE POTENTIAL TO BE UNLOCKED?

- » Marquee offshore investors and domestic players have increased their participation
- » Industrial REIT investments have enabled new players to enter the market
- » The gap in demand and supply for warehousing space continues to be an issue
- » Difficulty in matching customer price and land owner return expectations is a major concern for developers
- » Warehouses 35-40 kms from Tier 1 cities continue to be a focus for most investors, but projects in Tier 2 and 3 cities are gaining traction
- » Projects in Tier 2/3 cities face challenges including limited demand, difficulties in acquiring land, time-consuming regulatory processes, and the risk of frivolous lawsuits
- » Warehouse leasing challenges include procuring risk-free land, procuring approvals in a timely manner, and increased risk of litigation

Participants noted increased participation from marquee offshore investors and domestic players. The introduction of industrial REIT investments has also enabled new players to enter the logistics and warehousing sector.

It has been observed that players who previously only undertook primary investment in projects have now also started developing projects.

While there is adequate domestic and offshore capital floating in the market, there continues to be a massive gap between demand and supply for warehousing space in India.

A major concern is that the demand exists at a specific price, and with the increasing development costs it is challenging to develop a project in such a manner that the developer can match both the customer's price expectations and the landowner's expectation on the returns.

Most investors focus on developing Grade A warehouses located approximately 35-40 kilometres away from Tier 1 cities such as Delhi and the National Capital Region (NCR), Bangalore and Mumbai.

However, with increasing requirements for better network connectivity - especially due to the growth of the e-commerce sector - investments in warehouses in Tier 2 and Tier 3 cities such as Lucknow, Kolkata, Nagpur, Guwahati, etc. are gaining traction.

In-city warehouses (especially in Delhi, Mumbai, and Bangalore) also have strong potential for growth as a result of the increased demand for last-mile delivery centres.

Dheeraj Agarwal (IndoSpace Capital), RK Narayan (Horizon Industrial Parks), and Hemant Prabhu (Greenbase) contemplating the Indian logistics market

Participants in the session identified that the most significant challenges faced by developers with investments in Tier 2 and 3 cities include a lack of demand for Grade A quality warehouses and/or large-scale warehouses, hurdles in land acquisition due to fragmented ownership of land parcels across multiple parties, and that there is a certain degree of trust deficit unless the developer has an exceptional reputation.

The time-consuming process for procuring regulatory approvals/clearances and an increased risk of frivolous litigation were also noted for adding additional impediments to developers operating in these regions.

The executives in attendance agreed on the importance of engaging a specialised team with ground-level execution expertise in order to adequately tackle the above challenges.

Warehouse leasing was recognised as not being an extremely complicated business when compared to residential projects for a number of reasons. Construction of the warehouse and asset management services can be outsourced, and if the developer engages good commercial talent, leasing the warehouse premises can also be managed.

The real challenges lie in procuring clean, risk-free parcels of land, liaising with regulatory authorities to procure the various approvals that are required in a timely manner, and the increased risk of litigation. From a regulatory standpoint, the implementation of a single-window warehousing approval mechanism will be extremely helpful in facilitating more participation.

FUTURE OCCUPIER DEMANDS

MORE APPETITE FOR HIGH-QUALITY AND TECH-DRIVEN ASSETS OR IS LOCATION STILL KING?

» Critical factors such as location, development costs, existing infrastructure, customer and industry requirements, and more must be considered while assessing a project

» Developers may consider developing processing centres, fulfilment centres, cold storage units, etc. each of which has unique considerations

» Customers are very focused on the ESG compliance of warehousing and logistics centres

» Implementing tech-solutions requires high capital investment and catering to specialised or niche customer requirements

» Adding ARS to warehouses can help optimise space and enable the hosting of multiple tenants but it is cost intensive and ROI may not be seen for ~10 years

Industry leaders in the session to discuss expectations for future occupier demands reached a consensus that the most critical factors to take into account while undergoing a project assessment are:

» Location;

» Development costs;

» Accessibility and infrastructural support;

» Security;

» Policy support from central and/or state authorities;

» Availability of suitable manpower;

» Industry and customer requirements.

It was observed that - depending on the industry or sector to which the project intends to cater - the reliance on each of these factors will vary significantly.

A food park/processing unit, for example, would need to be located close to farmland, unless the developer can identify a site further away from the farmlands which carries a lesser location cost, is accessible, and does not have a significant impact on transportation costs.

Besides solely focusing on warehousing and logistics centres, developers may also consider developing processing centres, fulfilment centres, cold storage units, etc. Each of these projects would carry different and unique considerations.

Customers may seek to integrate tech-solutions in future warehouses, but the most notable customer demand is currently for warehousing and logistics centres to be ESG compliant.

While developers are open to integrating tech-solutions in their assets, adaptation of tech-solutions requires high capital investment and catering to specialised or niche customer requirements.

In view of this, developers are looking to evaluate customer requirements first and only then adapt tech-solutions to suit those needs.

To illustrate this point, paint companies and chemical companies are looking to adopt Automated Retrieval Systems (ARS) in their warehouses. Such specialised warehouses would help optimise space and permit multiple tenants to share the facility.

However, it becomes difficult to justify the economics of developing such space because it is so highly specialised for a single purpose, and can be extremely cost intensive. It was also observed that the return on investment is not estimated to be recouped until a period of around 10 years and the returns are profoundly contingent on tenants with such specialised requirements needing or willing to stay on a long term basis.

Abhijit Malkani (ESR India), Dheeraj Agarwal (IndoSpace Capital), RK Narayan (Horizon Industrial Parks), and Hemant Prabhu (Greenbase) during a discussion session at the event

LAST MILE INVESTMENTS
CAN PLAYERS TRANSFORM URBAN DYNAMICS DESPITE EXISTING CONSTRAINTS?

- Last mile and in-city warehouse project feasibility must consider:
  - Land acquisition costs and subsequent investment in preparation
  - Optimising floor area ratio in multi-level warehouses
  - Limited space and limitation on number of levels
  - Regulatory constraints
  - Alignment of rent with customer expectations
- Tech-solutions such as ARS may improve in-city warehouses feasibility
- Specific joint ventures are a viable option for in-city projects

In the discussion on last mile or in-city warehouse projects it was observed that there are some key challenges while assessing the feasibility of such developments.

Among these issues are the high costs of land acquisition. Following the purchase is the necessity of intensive investment in order to make the acquired land parcel suitable for warehousing.

Space limitations and constraints on the number of levels - developers do not typically go beyond 3 levels - were noted as being compounded by challenges in optimising the floor area ratio in multi-level warehouses. Attendees shared the example of ramps generally being preferable over lifts despite taking up more space to illustrate this point.

Regulatory constraints are another major consideration, primarily due to intensive approval and compliance requirements - especially regarding fire safety standards.

Attendees discussed the issue of developers needing to charge higher rents for such projects, which would not align with customer expectations, especially in Tier 1 cities such as the Delhi NCR or Mumbai.

It was also highlighted that developers could potentially generate equivalent or even higher returns by developing residential or commercial projects as opposed to warehousing, with the possibility of increased competition for land.

Anshul Singhal (Welspun One), Fayaz Ali (Al Faya Capital), and Dibyendu Deepak (Repono) during the Investment Strategies session at GRI Logistics & Warehousing India 2023

There are a large number of redundant and/or obsolete spaces, parking lots, sheds, defunct malls, etc. within many cities which, with suitable support from governmental authorities, have the potential to be developed into in-city warehouses. Additionally, the adaptation of suitable technology (such as ARS) may help make in-city warehouses more feasible.

Lastly, while a strategic partnership for in-city specific projects may not be feasible, project specific joint ventures are a viable option that could be explored by developers for improved opportunities for mutual success.

Abhilash Pasupuleti (IndoSpace), Alok Jain (Blackstone), Atul Sanganeria (ADB - Asian Development Bank), G Madhusudhan (Sumadhura Infracon), Shobhit Agarwal (ANAROCK Capital), Venkatesh YA (Vishuddh Properties), Vijay Girdhar (Optus Realty), Vishal Maheshwari (Transindia), and others participate in the opening session led by Anshul Singhal (Welspun One)

THE LEASING GAME
HOW ARE INVESTORS, OWNERS AND OCCUPIERS ALIGNED ON THEIR NEEDS?

- » Developers prefer standardised warehouse specifications to enable projects to be built on a speculative basis and subsequently leased
- » Standardised specifications are hampered by varying requirements depending on industry, location, etc.
- » Supply of warehouse and logistic space is expected to increase in the coming years
- » Developers may be able to charge higher rents in due course
- » Considerations for projects in Tier 1 vs Tier 2 and 3 cities include:
  - » Very few developers have managed to overcome the on-ground execution challenges in Tier 2 and 3 cities
  - » Customers continue to prefer Tier 1 cities despite lower rents due to risk profile in Tier 2 and 3 cities
  - » Investor preference for time-bound investments may not be possible in Tier 2 and 3 city projects
  - » Cities such as Guwahati are strategic locations that could offer potential for exponential growth

Developers prefer standardising warehouse specifications instead of relying on pre-leased assets. This enables developers to build on a speculative basis and subsequently lease such assets out.

That having been said, customer requirements continue to vary depending on the industry, the location, and other factors. Accordingly, standardised warehouse specifications may not be considered feasible to many.

Supply of logistics and warehousing space is expected to increase in the coming years, but rent escalation may not be proportionate. However, given the high cost of replacement, developers may be able to charge higher rent in due course.

TIER 1 VS TIER 2 AND 3 CITIES:

While multiple organised developers have forayed into Tier 2 and 3 cities, very few have managed to overcome the on-ground execution challenges present in these regions. Due to the risk profile carried by projects in Tier 2 and 3 cities being higher - despite better rental costs - customers continue to prefer and prioritise Tier 1 cities.

Investors have demonstrated an inclination for making time-bound investments - such as in assets which offer liquidity over a 5-year time horizon - which may not be possible with projects under development in Tier 2 or 3 cities. Investor preference for Tier 1 projects has therefore remained the same or even increased.

While developers continue to prioritise investments in Tier 1 cities such as Delhi, Mumbai, and Bangalore, cities such as Guwahati are important strategic locations which, if tapped successfully, could offer the possibility of exponential growth.

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GRI CLUB WOULD LIKE TO THANK
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PARTNER CORPORATE &
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KHAITAN & CO

RAJEEV VIDHANI
PARTNER BANKING & FINANCE,
RESTRUCTURING & INSOLVENCY
KHAITAN & CO

ABHIRAJ GHANDI
PARTNER REAL ESTATE
KHAITAN & CO

AS WELL AS:

PRITALI PATIL - SENIOR ASSOCIATE AT KHAITAN & CO
&
AMULYA SHARMA - PRINCIPAL ASSOCIATE AT KHAITAN & CO

MEMBERS OF GRI CLUB INDIA WILL ALSO ATTEND **INDIA GRI 2023**

GRI Club

REAL ESTATE

Founded in 1998 in London, GRI Club currently brings together more than 10,000 senior executives spread across 100 countries, operating in both real estate and infrastructure markets.

GRI Club's innovative discussion model allows free participation of all executives, encouraging the exchange of experiences and knowledge, networking and business generation.

GRI Club Members also have access to our exclusive online platform to learn more about other members and their companies, correspond and schedule meetings, and receive unrestricted access to all GRI Club content.

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