

Warehousing demand on the rise, set to outstrip that for office space

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The annual requirement for warehousing space has reached 25 million sq ft - Photo: Bijoy Ghosh

E-commerce, courier companies seen as driving force

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Demand for warehousing, the dark horse of the real estate sector, is set to outstrip that of office space in the next two years. The rising demand from e-commerce and courier companies combined with stagnation in office space offtake will change the pecking order for real estate requirements in the country.

The annual requirement for warehousing space has reached 25 million sq ft (msf) against 30 to 35 msf for office.

“The annual demand for warehousing is expected to reach 40 msf in the next two years, overtaking the office real estate,” Ashutosh Limaye, Head of Research and REIS at JLL India, told *BusinessLine*.

Sunrise sector

The overall space under warehousing is 250 million sq ft now and expected to touch 400 million sq ft by 2020, he added. “Offices are a mature asset class and have seen a growth leap for almost a decade. That will plateau out. In contrast, warehousing is a sunrise sector,” he added.

Balbirsingh Khalsa, National Director - Industrial, Knight Frank India, said consolidation of warehouses post GST will lead to a surge in demand for Grade ‘A’ and large-sized warehouses. “The Delhi-Mumbai industrial corridor and the western and eastern dedicated freight corridors are gaining renewed focus, giving a fillip to the warehousing sector.”

Pankaj Kapoor, MD at Liases Foras, agrees that warehousing will get a leg up as companies look at central locations to set up warehouses from where transportation and logistics costs are low. “Before GST, octroi arbitrage decided the location of warehouses. Now, new central hubs for warehouses will emerge,” he said.

Outlook for IT down

“In contrast, the office market hasn’t been very positive. It was moving due to e-commerce and other industries have not contributed much to it. It hasn’t shown the surge of 2006-07 of the IT boom years in recent years. Since the outlook for IT is down, the office space demand will also be limited,” Kapoor added.

Research firm Elara Capital has said the office market has been a laggard for almost six years. “Office lease rentals have corrected by 50 per cent from the peak of 2008 and continue to stagnate owing to supply outpacing demand,” it said in a report.

Given the growth in warehousing, foreign private equity players are also entering the market. “The warehousing and logistics sector received investment of ₹1,438 crore through two major deals in 2015,” JLL India said in a report. The 100 per cent foreign direct investment (FDI) in warehouses and food storage facilities under automatic routes (where manufacturers can sell their products online directly) has made the sector attractive to foreign PE players.

Private equity funds

Already, some private equity funds that have invested in the Indian warehousing and logistics space are Everstone Capital, Fidelity International and Milestone Capital Advisors.

This increased interest will lead to fresh supply of modern warehousing and industrial parks in the next few years. “Today, warehousing is a highly fragmented market; there are not even five players at the national level. Being locally-driven, they are not sophisticated or good quality assets. All that is now set to change,” JLL’s Limaye added.

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