

INDIA WAREHOUSING MARKET REPORT 2018

INSIGHT SERIES #6

E-tail demand underpinning warehouse development in India

Introduction

As a concept, e-tailing or retailing via internet took off in 2007 in India when Flipkart started its operations. Technological advancements and its increasing usage by retailers provided

a plethora of e-commerce platforms and online marketplaces spoiling the consumers for choice. The smartphone revolution ensured availability of popular e-commerce

applications such as those of Flipkart and Amazon and helped modern retail formats enhance customer reach.

TABLE 1

Interesting facts driving e-commerce growth in India

India's total internet user base set to increase to 829 million or 59% of the total population by 2021

Internet penetration in India's urban areas stands at nearly 65%

Smartphone users in India are expected to grow by 14% annually to 340 million by the end of this year

From \$3 billion in 2014, the e-tail market size is projected to grow by 65% annually to \$70 billion by the end of 2019

Source: Knight Frank Research, India Brand Equity Foundation (IBEF)

However, the share of e-tail in total retail revenue is only 11% in the 7 major cities. The e-tail market is on an upward trajectory as the way Indians shop is undergoing a sea change due to multiple factors such as rapidly changing lifestyle needs, discount fests, improved penetration of internet and smartphones, electronic payment gateways and mobile wallet options. Currently, the e-tail market is dominated by 3 large players – Flipkart, Amazon and Snapdeal. Together, they constitute 90% of the total market share. These large players are continually diversifying their product offerings and expanding footprint to strengthen supply chain efficiencies and enhance storage capacity through outsourcing to third-party logistics players (3PLs), investing in own captive arms and partnerships with smaller warehouses, amongst others.

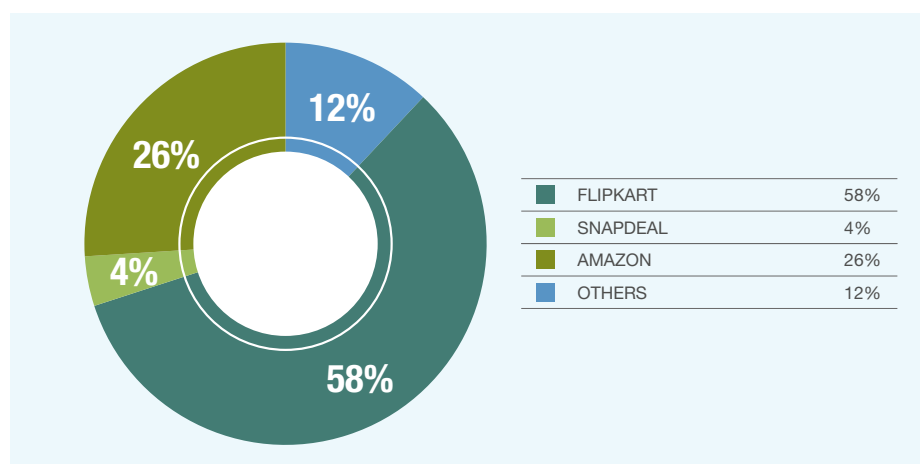
The demands of a seamless, 24x7 interactive environment provided by e-tailers is made possible only through the efficiencies generated by the logistics processes. Logistics is not only a key challenge in e-tailing but also a strategic differentiator. Customers shopping via the e-tailing route

have high expectations with respect to delivery as well as refunds. With multifold increase in the volume of e-tail transactions, there is also a need for e-businesses to manage the corresponding volume of goods returned, damaged or exchanged. The flexibility provided by logistics to evolve according to business scale is the backbone

of the e-tail industry. The logistics sector specific to e-commerce retailing in India was valued at USD 0.46 billion in 2016 and is projected to witness a CAGR of 48% in the next 5 years to reach USD 2.2 billion by 2020.¹

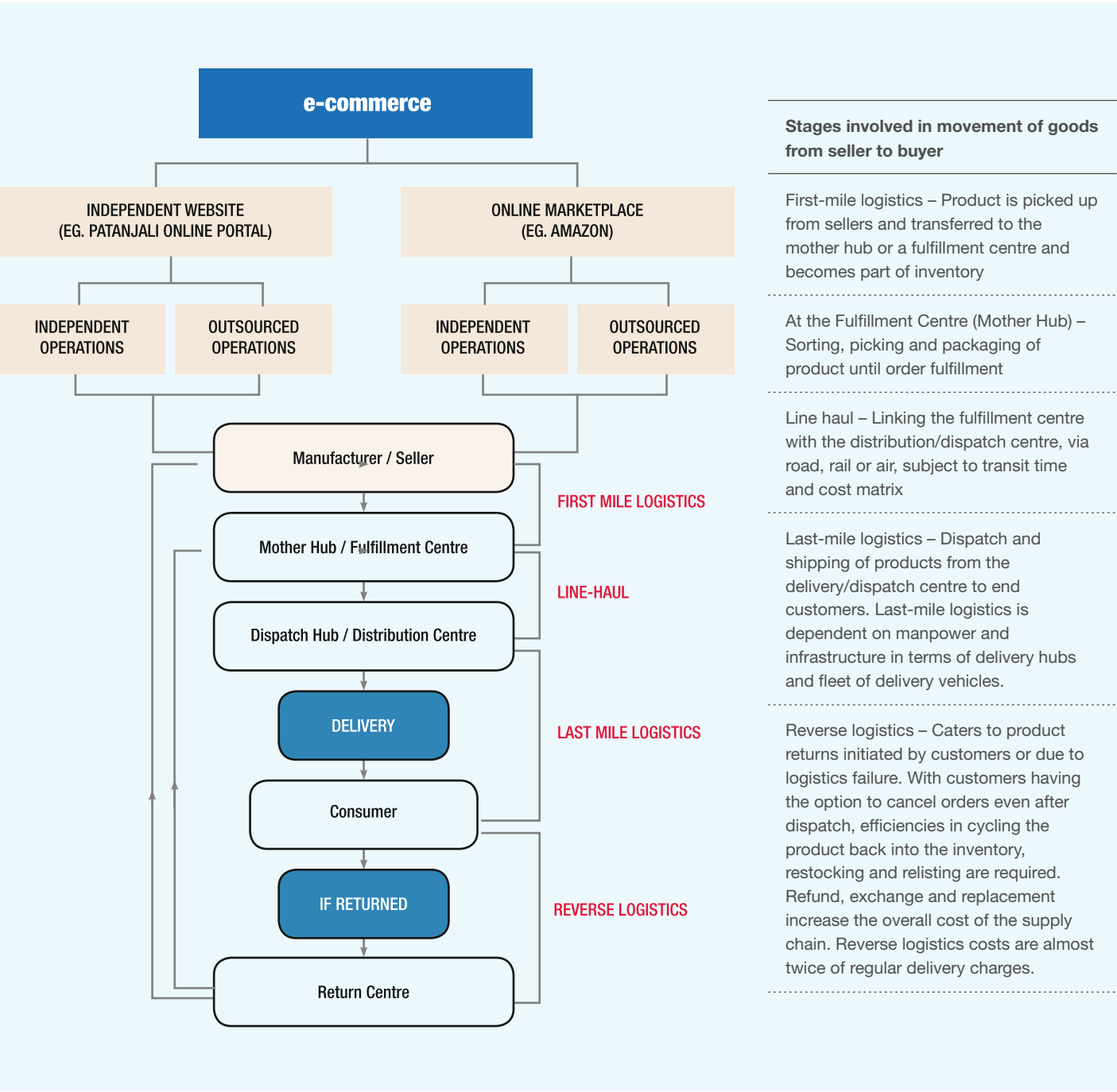
¹ Media and Entertainment Report, FICCI, 2016

FIGURE 1



Source: Knight Frank Research, RedSeer, 2017 data

FIGURE 2
Supply chain operations of e-commerce companies



Source: Knight Frank Research

MAJOR INVESTMENT DRIVERS

Being one of the major consumption economies in the world, e-commerce boom in India is certainly on the cards. The household consumption as a percentage of GDP in India is 79.8% which is one of the highest in the world.² With higher disposable incomes, discretionary spending is on the rise.

Categories such as food and beverages, apparel, household goods and leisure goods are the fastest growing segments in India. With a tech-savvy population driving online shopping business, more time spent on the internet due to accessibility through multiple devices is set to boost e-commerce activity.

Also, the implementation of the Goods and Services Tax (GST) will help in consolidation and reduction of costs and have a positive impact on delivery timelines.

² World Bank Database

TABLE 2

Investment plans of major e-commerce players in emerging locations

Company	New logistics centres	Investment (in \$ million)	Type of cities
Infibeam	75	5.8	NA
Flipkart	100	500	Tier-II cities
Amazon	7	110	Tier-II and III cities
Snapdeal (Vulcan)	80	23.8	80 cities across India
Connect India	NA	5	Under-served regions

Source: Knight Frank Research, media reports

Note: Announcements made since June 2016

TABLE 3

Major trends and challenges in e-tail logistics

Major trends	Challenges
Use of technology as part of supply chain will be a key differentiator that will dictate the pace of evolution of e-tail logistics	Demand estimation is difficult due to diverse customer base, seasonal changing patterns, lack of data for new products and markets, disruption in social and behavioral norms, etc.
Shift towards outsourced fulfillment models	Teething troubles pertaining to GST compliance with suppliers will add additional cost burden to e-commerce firms for movement of goods to different clusters
Evolving trend of seller-driven logistics for geographies where mother hubs or fulfillment centres are out of the way	Processes related to reverse logistics yet to be streamlined but the increasing volumes are increasing logistics cost pressures for the e-commerce players
Focus on faster delivery models and reverse logistics	Inadequate transport infrastructure is a major cause for rising logistics cost; also, the connectivity beyond metros is limited

E-commerce companies' reliance on an efficient logistics system has only increased with new technological innovations. Logistics is the lifeline to e-commerce sector's growth with many companies having state-of-the-art warehouses, modern trucking systems, etc. The advent of e-commerce has acted as the

much-needed catalyst to modernise the warehouses from mere storage units to effective light manufacturing units. The emerging trend of outsourcing e-commerce retail fulfillment centres to logistics service providers (LSPs) coupled with increasing demand and new types of services such as

time slot specific deliveries and midnight deliveries, LSPs and 3PLs catering to the e-commerce sector need to step up their core competencies and expand strategically to capture opportunities emerging out of the e-commerce landscape.

Warehousing in e-commerce

In recent years, the e-tail sector has emerged as a major driver for consumption-led warehousing opportunities. Having a warehouse within 60–90 minutes of driving distance from consumers has fueled space take-up of warehouses in prominent peripheral clusters around some metropolis, which is slowly extending to Tier-II cities as well. For example, the National Highway-48 caters to the major consumption markets of Delhi and Gurgaon and has emerged as a popular choice amongst e-commerce players. In the Navi Mumbai Airport Influence

Notified Area (NAINA) in Mumbai, major e-commerce players have started taking up land parcels to construct captive warehouses to cater to future demand. The annual transaction volumes of warehousing space for Mumbai's warehousing market recorded a 230% year-on-year (YoY) growth, led by e-commerce amongst other sectors. Similarly, in Bengaluru, Hoskote-Narsapura is gaining traction due to ease of delivery to eastern and south-eastern consumption centres of Whitefield, Outer Ring Road and Sarjapur Road.

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TABLE 4

The below warehouse clusters in major cities remained popular amongst e-commerce occupiers in 2017

Sr. No.	Occupier	Warehouse cluster	City
1.	Flipkart	Changodar-Bagodara belt	Ahmedabad
2.	Flipkart	Jeedimetla-Medchal	Hyderabad
3.	Amazon	Bhiwandi	Mumbai
4.	Amazon	NH-48	NCR
5.	Amazon	Ghaziabad	NCR

Source: Knight Frank Research

As the e-commerce segment matures on the back of increasing internet and smartphone penetration, it provides ample opportunities for developers to construct quality warehouse stock dedicated to the needs of e-commerce and e-commerce-focused logistics service providers. The smart warehousing model of developed markets, popularly known as the 'Amazon Effect' has had a major impact on shaping up the warehousing real estate landscape in India and will continue to influence demand expectations of other competitors and new entrants. Amazon has brought international standards of warehousing demand to India and has helped identify certain specifications that developers should use as a thumb rule to target e-commerce as a target segment. With e-tailers prepared to open their war chests for supply chain optimisation, well lit, spacious, modern warehouses should increase space uptake. Top real estate developers have already started paying attention to e-tail occupier expectations in terms of specifications.

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KEY TAKEAWAYS FOR WAREHOUSE DEVELOPERS

As per Knight Frank Research, the e-tail segment leads in terms of growth for warehousing space at an annual growth rate of 19% across the 7 key Indian cities[#]. From 1.3 million sq m (14 million sq ft) in 2016, the total warehousing requirement of e-tail will increase almost two-fold to 2.69 million sq m (29 million sq ft) in 2020. Some of the leading e-commerce players in the country have nearly 30–40 warehouses each with an average storage capacity of at least

0.18–0.24 million sq m (2–2.5 million sq ft) which increases by 20% during festive periods. To capitalise on this growth in demand, Knight Frank suggests that developers adopt the following best practices and gradually shift from unorganised to organised developments.

Standardise warehouse development aspects

As e-tailers continue to push the envelope to reduce the click to delivery time lag, 4-hour deliveries are soon expected to surpass 1-day delivery timelines. To fulfil the orders faster, international best practices such as Flow, Accessibility, Space and Throughput (FAST) should be adopted for warehouse design to build better quality assets with superior support infrastructure. Since e-tail occupiers prefer vertical storage density, warehouses with a higher clear height of 40–50 feet can be considered future proof as building structure is a long-term investment and cannot be changed later. Refining building dimensions as per grading should go a long way in attracting e-tail occupier demand.

Invest in large contiguous tracts of land

Constructing warehouses requires land parcels of 20–25 acres, as Fulfilment Centres are huge facilities with ground coverage of 50–52% ranging between 93,000–465,000 sq m (100,000–500,000 sq ft) in size. With ever-expanding requirements as volume play reaches new heights and the frequency of online shopping festivals increases, the e-tail segment may not witness imminent consolidation due to their business need to maintain footprint closer to both consumers and sellers alike. This is despite the implementation of GST which has prompted consolidation to a few locations equidistant from a group of consumption hubs in other traditional sectors. Due to land aggregation challenges encountered by some foreign players for legally compliant warehouses, a long-term land acquisition strategy will prepare landlords and developers to cater to forthcoming warehousing demand due to the

e-tail boom. Going forward, we expect e-tailers to scale up operations as competitive rivalry heats up. Investing in large contiguous land parcels will help developers plan for long-term supply of warehouses. Developers should also focus on joint developments with landlords or joint ventures to share development risk.

Offer flexible pricing arrangements

The developer community should also provide e-tail tenants flexibility in rental arrangements. Some pricing arrangements, such as below, can be adopted.

- Pay-as-use option, wherein the e-tailer can pay for the actual space utilised and pallet space usage.
- Aggregate Model, wherein value-added services, such as pick and pack, are provided and rents are derived based on a percentage of product prices or actual revenue.

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Warehouse Facilities Management

Unlike old warehouses where tenants had to invest in leasehold improvements, developers should focus on Warehouse Facilities Management. A much ignored field in the godown era, quality warehouses require expertise on behalf of developers to manage the support infrastructure created while tenants focus on their operations. The developer community should adopt an 'own

[#] (Mumbai, National Capital Region (NCR), Bengaluru, Chennai, Pune, Hyderabad and Ahmedabad)

and manage' model for retention of tenants for the long term as e-tailers are placing big bets on expanding fulfilment capacity through warehousing and demand large facilities with integrated systems. Well planned warehouses with clearly defined common area maintenance scope such as offering ancillary infrastructure, access control, traffic management, parking management for idle trucks, external and internal maintenance, internal repair, reserved truck parking bays, etc. can help developers build long-term relationships with tenants.

Blurred state boundaries and growth in the e-tail segment have brought the Indian warehousing sector at an inflection point. E-tail warehousing requirements are not only expanding the market in terms of space and service standards but also helping the largely fragmented Indian warehousing sector evolve from a nascent stage into a mature market through high quality specification, international best practices and rising awareness about recent tax reforms such as GST.



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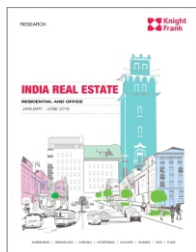
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