

India Warehousing Market Report

April-September 2023

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As 2023 draws to a close, policymakers around the world grapple with a recessionary environment compounded by an intensifying geopolitical crisis in Ukraine and Israel. While India is not immune to these immense forces, it remains one of the bright spots on the global economic map with the RBI's GDP growth forecast of 6.5% for FY 2024.

The Indian warehousing market has been a virtual reflection of the strength seen in the Indian economy since FY 2022, as demand not only sustained but reached record levels in the volatile global economic environment. Warehousing demand hit a record high of 4.8 mn sq m (51.3 mn sq ft) in FY 2022 as the market rebounded from pandemic lows, sustaining at the same level in the subsequent year despite a major drop in demand from e-commerce players. The slack in the e-commerce sector was compensated by manufacturing sector companies, representing a significant shift in the market's underlying demand base which earlier relied on the e-commerce sector to boost transaction volumes.

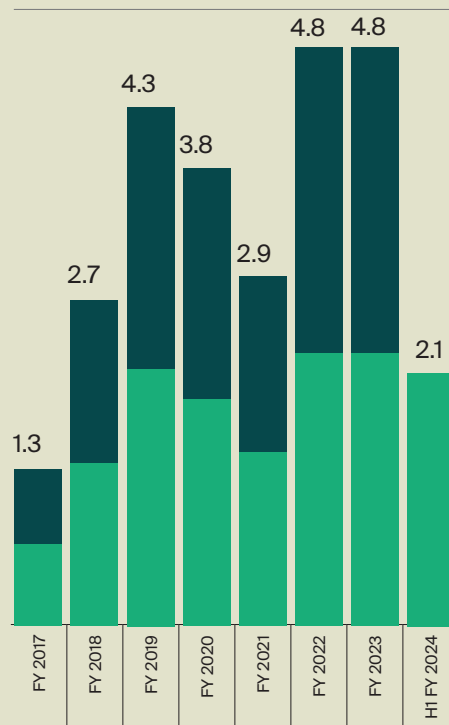
While occupier sentiments continue to be strong, traction in the warehousing market has taken a pause in the first half of FY 2024 (April to September 2023). The 2.1 mn sq m (23 mn sq ft) transacted in H1 FY 2024 represents a 10% drop in transacted volume compared to half-yearly volumes in FY 2023 (10% less than half the volume transacted in FY 2023). 53% of these transactions occurred in Grade A spaces during the current analysis period.

Industry split of transaction volumes

Continuing their strong showing in FY 2023, the volume transacted by the manufacturing sector even exceeded that of the 3PL sector in H1 FY 2024. Manufacturing sector companies such as those from the automotive, energy and chemicals space constituted a substantial 47% of the total transacted volume during the period. India has benefited from the sustained move towards decentralisation of manufacturing capacity from China, with global manufacturing giants such as Apple, Samsung, Foxconn and TSMC increasing their manufacturing base in India. Also, the government's focus on 'Make in India' and the Production Linked Incentive (PLI) scheme have started paying dividends and continue to boost the prospects of manufacturing industries in the country. Second to the manufacturing sector, 3PL sector companies comprised 30% of the volume while the other sectors had single digit shares.

E-commerce sector volumes had languished since the beginning of 2022 as aggressive expansion during the pandemic created excess capacities that are still being utilized. Besides, major players in the sector acquired large format captive/owned spaces which constitute their regional hubs and are not captured as part of market demand, since these are not in the leasable space market. With the focus increasingly shifting toward profitability, e-commerce companies have concentrated on curbing costs as well as speculative expansion.

Fig 1: Transactions trend (mn sq m)



Source: Knight Frank Research

Industry split of transaction volumes

Sector	FY 2023	H1 FY 2024
Other Manufacturing	30%	47%
3PL	39%	30%
Retail	13%	6%
Miscellaneous	5%	6%
Ecommerce	7%	5%
FMCD	4%	4%
FMCG	3%	2%

Source: Knight Frank Research

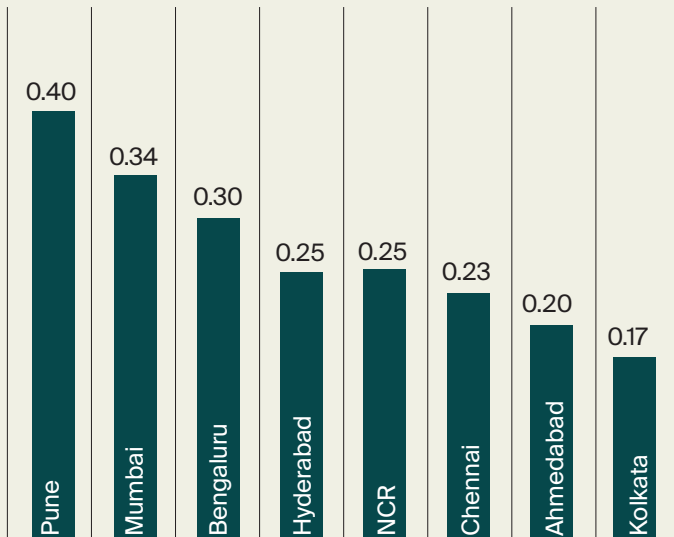
Notes: Warehousing demand data includes light manufacturing/ assembling. Other Sectors include all manufacturing sectors (automobile, electronics, pharmaceutical, etc.) except FMCG and FMCD. Miscellaneous category includes services such as telecom, real estate, document management, agricultural warehousing and publishing.

Market performance (city-level transaction volumes)

Compared to industry demand, transaction activity was well distributed across markets with Pune, the leading market, accounting for 19% of the total volume. Unsurprisingly, the automotive industry was the primary driver in Pune and constituted 81% of the area transacted in this market. Mumbai was the second most prolific market accounting for 16% of the total area transacted during the period with the 3PL sector accounting for 55% of the market volume.

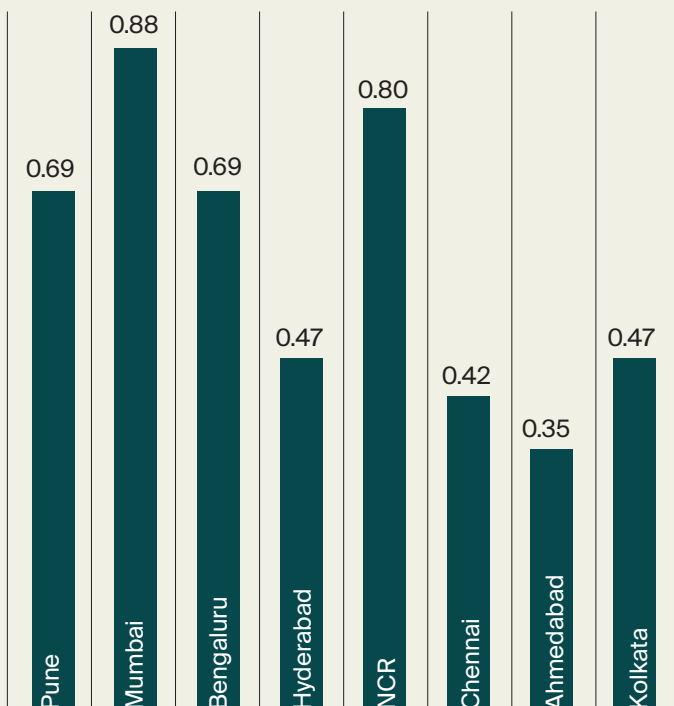
Market-split of transaction volumes

Transaction Volumes (mn sq m) in H1 FY 2024



Source: Knight Frank Research

Transaction Volumes (mn sq m) in FY 2023



Source: Knight Frank Research

Average rent (in INR/sq ft/ month)

Market	FY 2023	H1 FY 2024	YoY Change
Pune	25.0	25.9	4%
Chennai	22.5	23.3	4%
Ahmedabad	17.0	17.5	3%
Kolkata	23.1	23.6	2%
Hyderabad	20.0	20.4	2%
NCR	20.2	20.5	1%
Mumbai	23.1	23.4	1%
Bangalore	21.5	21.8	1%

Source: Knight Frank Research

Rent growth had been the bane of the warehousing market over the past decade and only began to gain momentum in FY 2022 as inflationary pressures on steel and cement prices along with a recovery in demand spurred the upward movement. While occupier traction seems to have taken a pause in the current analysis period, rent growth across markets has been relatively healthy in H1 FY 2024 (September 2023) compared to levels existing at the end of FY 2023 (March 2023).

Outlook

With the 3PL sector playing a pivotal role in the market and the manufacturing sector exhibiting substantial growth over the past two years, the overall demand from occupiers has remained remarkably resilient, even in light of the e-commerce sector's cautious approach during this period. The prevailing global consensus regarding the partial relocation of manufacturing hubs from China to India and other Asian nations, coupled with India's renewed commitment to bolstering its manufacturing capabilities, presents a promising trajectory for sustained growth within the Indian warehousing sector.

While the global economic and geopolitical landscape is expected to exert some influence on businesses in India, it is noteworthy that the nation's relatively robust fiscal position and resilient economy are well poised to support the stability and growth potential of the warehousing market in the remainder of fiscal year 2024.

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