

Webinar Report

April 28th 2020

COVID 19 - Impact on Warehouse Space Absorption & Future Trends in Logistics Industry



PREFACE

Our recent Webinar on COVID 19 - Impact on Warehouse Space Absorption & Way Forward to Logistics Industry' was attended by over **1200+** individuals with a mix audience of Supply Chain, 3PL, Transportation, Last Mile and other logistics companies professionals. Many attendees were from Ecommerce companies, fund houses, online groceries platforms, warehouse occupiers & developers

The goal of this session was to share various thoughts on the current situation in the Warehouse Space and Logistics sector, which might support businesses in these difficult times. With this report, our endeavor is to take you through the insightful discussions and predictions, which were discussed during the webinar.

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PANELISTS



Dr. Arunachalam R
CEO, ProConnect Supply Chain Solutions

Pro connect is a Redington group company and is one of the leading PL for IT/Telecom and eCommerce across India. Dr. Arunachalam is a Visionary Leader, business manager and change management specialist with Executive oversight of more than two decades in Supply Chain Management, developing logistics network, distribution, real estate & global procurement's.



Mr. Sumit Sharma
Co-founder, GoBOLT

GoBOLT is a fastest growing tech-logistics start-up, disrupting the \$200bn Indian B2B logistics space with innovations in IOT & AI. Mr. Sumit is responsible for Business Relations and Marketing/Branding domain for his startup GoBOLT. Coming from investment banking background, he began his career as a Consultant with Ernst & Young.

PANELISTS



Mr. Sandeep Chanda
Head of Strategy and Acquisitions, Embassy Industrial Parks

Embassy Group one of the giant into Commercial, Retail, Residential and Warehousing sector pan India. Sandeep comes from a pure Real Estate Background, having more than 16+ years of experience in the domain. He specializes in RE, Acquisitions and Real Estate Funds.



Mr. Rahul Gautam
Head of Real Estate, Grofers

Grofers is a house hold name now and Mr. Gautam is one of the major contributor to this. A Professional with extensive experience of 15+ Years in Real Estate Acquisition, Facilities Management, Designing, Vendor Management, for Real Estate Sector & E-Commerce.



Moderator

John Thomas

MRICS – Group Director, Realistic Realtors

Mr. Thomas comes with around 20 years of experience in Real Estate in several streams of business. A well known professional in the Real estate fraternity, he has been a valuable contributor to have initiated and managed new businesses & RRPL expansion across India.

Co-Host

Zafeer Ahmed

Vice President, Realistic Realtors



A seasoned professional, Mr. Zafeer is a real estate expert with over 12 years of experience in Logistics and Warehouses Leasing and Investments. With his strong analytical power, business development skills and profit center management, he is leading the Logistics and Warehousing vertical at RRPL.

Impact on Absorptions

- The net absorption of warehouse space in 2019 was approximately 37 million sq. ft. as compared to 32 million sq. ft. in the year 2018. 2020 was projected to touch around 40 million sq. ft., but with the COVID's impact, it is now estimated to be around 30 million sq. ft.
- A-Grade warehouse absorption was approx. 21 million sq. ft. out of the total absorption of 37 million sq. ft. and the remaining 16 million sq. ft. was absorbed by Grade B and C. Irrespective of COVID, the demand for A-Grade warehouses is going to increase as they support Automation, Multilevel Racking System, have higher Cubic Capacity and thus saving on the operational costs as these have ample sky lighting, insulation, etc.
- Warehouse space absorption is likely to rise in tier II and III cities subject to competitive pricing and quality. Government may also introduce initiatives to support warehouse setups in these cities in future.
- Traditionally, local retail network is very strong in India and small retailers would collaborate with big box retailers, backed by technology, to increase the demand of warehouse spaces across the various geographical areas of the country. Brick & Mortar retail will co-exist along with big box retailers.
- Probability on the shifting of industrial activities from most of the COVID-affected countries like US, Europe, Korea, Japan, etc., might boost the warehouse absorption in our country.

Impact on Occupiers

- Impact of COVID is witnessed across all the business sectors, including the warehouse industry, due to the disruption of business activity and consumption. With the current restrictions, the logistics & warehouse businesses largely operates at approx. 40% capacity.
- Occupiers be it 3PL, Ecommerce or any other business, have to manage their cash flow under the current situation for cost optimization.
- Since logistics and warehouse industry is labour-focused, it is largely affected due to the shortage of labour. This is expected to disrupt the business in short and mid-term period.
- Rent concession/ waiver is one of the ongoing proposition by occupiers to ease out the pressure specially for real estate costs. Though Force Majeure clause and terms of the agreement is gaining relevance under the current circumstances, the best possible way to move ahead is with mutual dialogue and understanding.
- Long leases with attractive terms or short leases with limited financial liabilities could be amongst the possible options to sail through this situation.
- Professional real estate consultants with subject expertise can bridge the gap between the occupier and the developer. Role of a real estate consultant plays a vital role to achieve a win-win situation to the involved parties.
- Occupiers would prefer A Grade warehouses with Automation, Artificial Intelligence and Technology.

Impact on Developers & Owners

- Considering the current need of hour, the developers/ owners would prefer and contribute to A Grade warehouse supply across the industries, leading to operational advantages
- Rent concession/waiver has emerged as a challenge for developers and owners specially who are running on LRD's/ loans or have returns commitments in lieu of debt or equity based funds. Moreover, constant cash flow is required to Menten and operate the warehouse facilities.
- Boost expected in absorption across the country with the increase in industrial and other manufacturing/assembling activities from the COVID affected countries, but an adequate supply of A Grade warehouses is imperative for the same.
- Prominent warehouse suppliers, specially A Grade developers across the country, might witness a substantial surge in demand of their warehouse spaces.
- Warehouse developers/owners has to adapt the New normal way. Immense care and precautions should be taken by them to ensure the required hygiene and healthcare measures for an uninterrupted business activity for the occupiers.

Impact on Investments

- As per the reports, Indian warehouse sector witnessed huge investments of approx. INR 254 billion (3.6 billion USD) since 2017 and was estimated to reach around INR 495 billion (7 billion USD) by 2023. This boost was majorly backed by the ecommerce and 3PL industrial demand.
- Industrial and warehousing sector is one of preferred rental class for investment after commercial office space and retail malls. It is being considered as a long-term investment class because of high demand, low risk factors, long-term stability and high leasing probability.
- Better return on Investment and high leasing probability might increase investment in logistic and warehouse industries considerably.
- Many PE Funds, sovereign funds and other large developers have already ventured in this industry and have expansion plans. Few amongst them are Blackstone, Xander Group, Mapletree, Warburg backed ESR and are developing huge logistics and industrial parks In India.
- The growth of Ecommerce industry is expected to result in further investment in warehousing industry. Considering the growing demand of the warehousing sector, many private players and HNIs/investors are focusing on the warehousing sector at different levels.

Impact on Tier II & III cities

- As per the latest reports on Tier II & III cities like Lucknow, Jaipur, Patna, Ahmedabad, Hyderabad, Guwahati, these cities reported 6 million sq. ft. of absorption out of the total absorption of 37 million sq. ft. in the year 2019.
- The change in consumer behaviour from retail to Ecommerce across the Tier II & III cities is expected to increase the demand of warehouse space in these cities.
- Cheap labour and improving infrastructure in Tier II & III cities, backed by adequate connectivity across other geographical areas, might bring in the attention of both occupiers and developers to construct their future developments in these cities. The availability of cheap labour might also trigger the surge in demand of warehouse in such cities.
- Last mile and on-time delivery would also be a major factor in attracting the small and mid-size warehouse requirements in various geographical areas.
- Cities, like Lucknow, Patna, Jaipur, Ludhiana, Ambala, Ahmedabad, Hyderabad, Guwahati, Sillguri, etc., are expected to receive the demand of warehouses in short and mid-term period.
- Better investment opportunity can also motivate many local developers and 3PLs to surge warehouse demand in these cities.
- Several government initiatives like Make in India, GST regulation, FDI Policy and other infrastructure improvements will also contribute to increase in demand of warehouse space across these cities.

NEW NORMAL

- Ecommerce is the real booster for this industry and pave the new way in the long run.
- Automation and digital technology is required now more than ever.
- Re-defining of new normal will focus more on social distancing, hygienic environment, revamping of infrastructure and making it conducive to work in terms of health and safety measures.
- New pie charts will be developed by consumers in terms of their behaviour, hygiene and good quality products.
- Money investment will be more intelligent move now and people's preference will be changed due to cash flow limitations.
- Government support and initiatives will contribute immensely to bring this industry back to normal at the earliest.

About Realistic Realtors

India's largest commercial real estate advisory firm serving across 400+ cities

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