



***Real Estate Trends 2018:
Bengaluru
Warehousing Market***



Warehousing demand strengthens in the city; e-commerce sector emerges as a significant driver

Bengaluru has been one of the key conduits in the country, serving as a gateway to southern India. The city enjoys significant position in the consumption market, given the influx in population in the last few decades, particularly engaged with the high growth IT sector. These factors have given rise to a number of warehousing clusters in the region. In recent years, the warehousing sector in the city has witnessed a gradual yet perceptible shift towards an organized market. Till recently, warehousing in India typically consisted of small units with companies maintaining separate warehouses in different states. Constraints such as the dearth of world class standards and specifications presented significant challenge to other growth sectors that were dependent on warehousing for their storage and safekeeping needs. The accelerated growth of the Indian economy in the last decade and favourable industrial growth spurred multinational corporations to set up their manufacturing hubs in the

country, thereby leading the warehousing sector to emerge as a lucrative avenue for developers willing to build modern warehousing space as a part of their real estate portfolio.

With transactions in the warehousing sector picking up momentum in the last few years across the key metros, owing to favourable government initiatives and increasing ease of doing business in India, Bengaluru observed a significant traction in warehousing demand as well. The advent and subsequent rapid growth of the e-commerce industry has lent substantial boost to the warehousing sector in the city. The past year witnessed the city accounting for almost a quarter of the total demand for logistics and warehousing space in the top eight cities of the country. The fact that the grant of infrastructure status has been provided to the sector, acted further as a stimulant enabling developers to gain access to cheaper finances.

KEY WAREHOUSING CORRIDORS:

Bengaluru has a number of warehousing clusters along its chief peripheral nodes, viz. Tumkur Road toward the north-west, Old Madras Road and its adjacent neighbourhoods in the eastern region, Hosur Road towards the south and Mysore Road in the south-western region of the city.

1. **North-Western Corridor:** This corridor, connecting Bengaluru with Mumbai via NH-4, has been long known for its industrial activity owing to the presence of the Peenya industrial area on Tumkur Road – the erstwhile biggest industrial hub in Asia. Factors such as ample land availability and connectivity to Mumbai have made the region a significant manufacturing hub. The service lanes along Tumkur Road are choc-a-bloc with manufacturing units from sectors such as automobile, pharmaceutical, food and beverage and FMCG companies. Not surprisingly, the Nelamangala-Dabaspete stretch on this road houses some of the busiest warehouses in the city catering to the needs of these industries. Going forward, the region holds potential of future supply of warehouses owing to its relatively lower land prices.

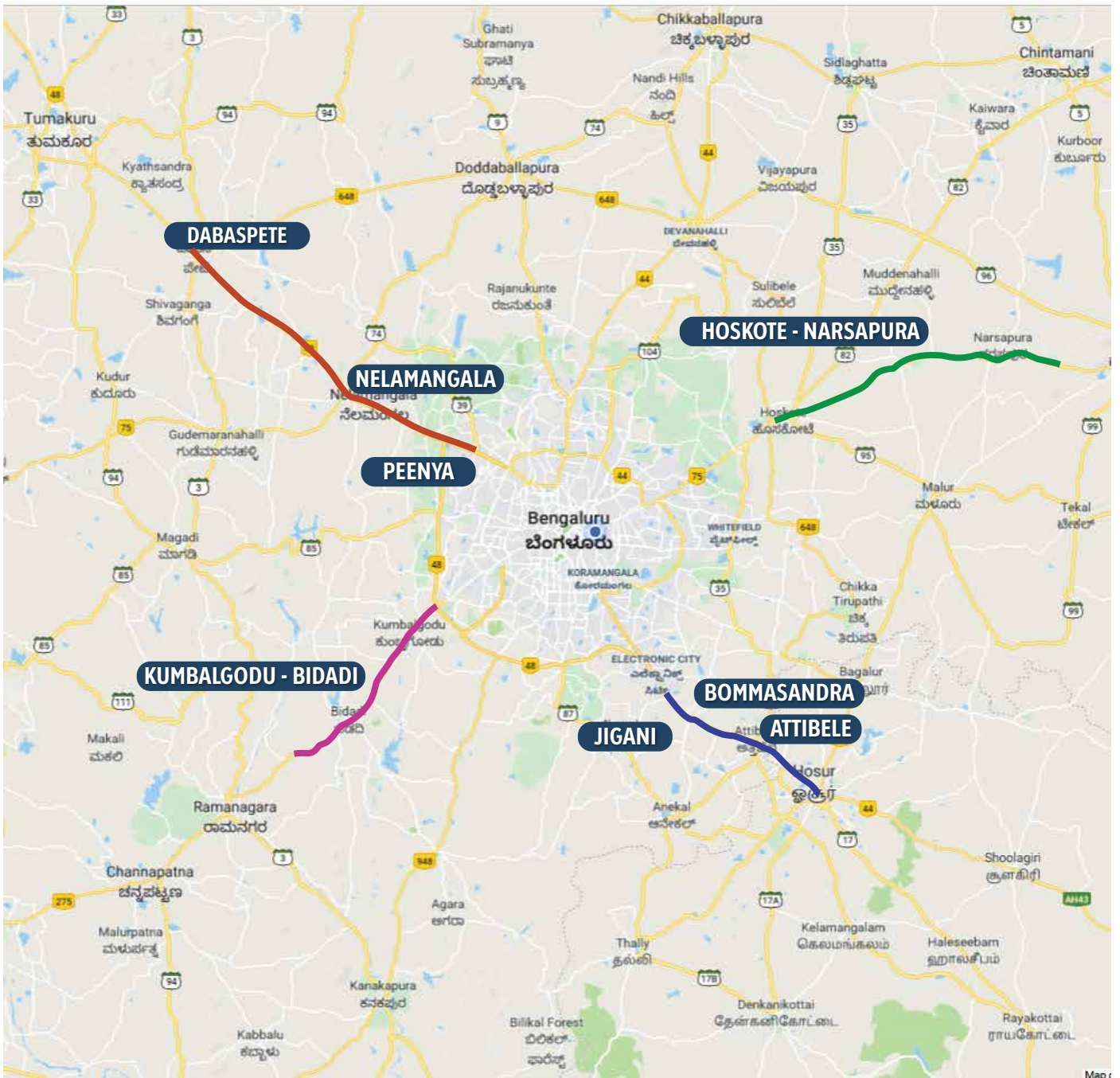
2. **Eastern Corridor:** The Old Madras Road forms another key warehousing corridor of Bengaluru in the eastern quadrant. Major warehousing clusters are observed in the stretch between Hoskote to Narsapura, both being established industrial centres connected to the automobile manufacturing hub of Sriperumbudur in Chennai along the NH-4. While this corridor had primarily gained prominence on account of the automobile and auto ancillary industry in the past, in recent years the Hoskote-Narsapura cluster has developed as a warehousing hub largely due to e-commerce occupiers. Intrinsic advantage of this corridor involves ease of delivery to neighbouring locations like the IT/ITeS belt of Outer Ring Road,

Whitefield and Sarjapur Road, which form major consumption centres of e-tailing goods. Lately, besides Hoskote-Narsapura cluster, warehouses have come up along Soukya Road in the vicinity of Whitefield.

3. **Southern Corridor** – The southern region of the city is host to the manufacturing facilities of several large pharmaceutical companies like Cipla, Biocon and Micro Labs on Hosur Road. Currently, Bommasandra on Hosur Road and some parts of Jigani and Attibele cater to the warehousing needs of interested parties. Real estate development in the last decade has pushed land rates higher in this corridor. The region being an important interstate transport corridor for cargo movement towards Chennai port, warehousing demand has been observed to be high on Hosur Road and its neighbouring areas.

4. **South-Western Corridor** – Mysore Road is one of the busiest routes towards the south-western part of the city. Warehousing is primarily observed in locations such as Bidadi and Kumbalgodu on Mysore Road. These locations, easily accessible from the heart of city, have witnessed linear development in recent years with a combination of industrial and residential growth and continues to offer potential for small time and medium industries.

KEY WAREHOUSING CLUSTERS IN BENGALURU



- **North-Western Corridor: Peenya, Nelamangala, Dabaspete**
- **Eastern Corridor: Hoskote, Narsapura**
- **Southern Corridor: Bommasandra, Jigani, Attibele**
- **South-Western Corridor: Kumbalgotu, Bidadi**

MARKET DEMAND

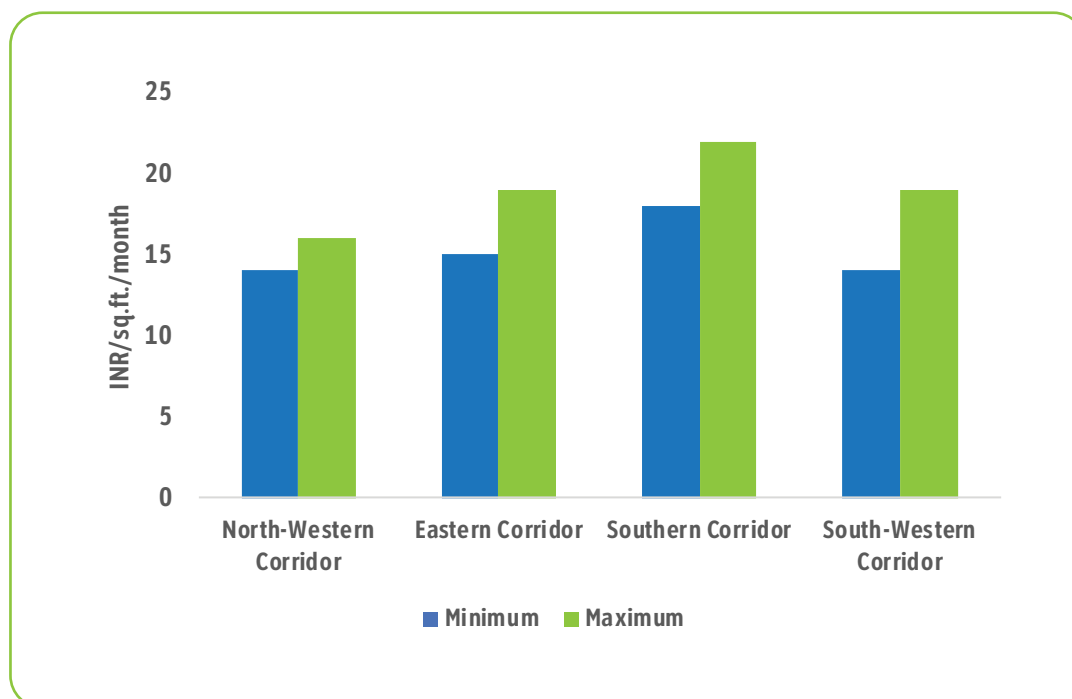
The demand for warehousing in the city is increasingly being impacted by the growth of the e-tail sector. While Bengaluru continues to be led by consumption-led warehousing demand, the share of the e-tail sector has strengthened the requirement for warehousing. The warehousing clusters in the eastern and the north-western corridors are home to large occupiers from the e-commerce segment such as Amazon, Flipkart, Myntra, Aditya Birla, Madura Garments and Decathlon.

In 2017, the warehousing transaction volume in Bengaluru registered a strong growth and was recorded at 2.1 million sq.ft. as compared with 1.1 million sq.ft. in 2016. Majority of the demand for warehousing space emanated from the e-commerce sector, followed by other sectors such as third-party logistics and FMCG firms.

The first half of 2018 saw a number of large-scale transactions as well. As with the previous period, the primary driver for warehousing space has been the e-commerce sector. Amongst the notable transactions during the year mention can be made of e-commerce major Flipkart leasing 170,000 sq.ft. of warehousing space, while Reliance Retail took up warehousing space of approximately 442,000 sq.ft.

The average warehousing rentals in the city vary within tight ranges, between INR 14/sq.ft. per month and INR 22/sq.ft. per month. The rentals have been observed to be relatively higher in the southern corridor towards Hosur, primarily on account of factors such as higher land cost and its strategic location of being in proximity to Tamil Nadu. The rentals in the other warehousing corridors operate on approximately the same range.

Average Warehousing Rentals in Bengaluru



Source: Vestian Research

OUTLOOK

The warehousing sector in Bengaluru is expected to continue its growth momentum. With industry-supportive initiatives like the grant of infrastructure status and the implementation of GST, the sector is expected to move ahead at a faster pace. This, coupled with the growth in the e-commerce and retail sectors, a sharp growth is envisaged in warehousing in the country. Additionally, there has been substantial interest shown by the developer community as well, which bodes well for the growth of organized warehousing. Earlier, the incentives to enter the warehousing sector was low for organized players as the occupiers generally paid preference to low cost options with a network of storage facilities near consumption centres. Today, this cost-saving attitude of occupiers is gradually changing and there has been a perceptible shift towards using the services offered by

organized players. The occupier profile has improved vastly, too, from being smaller regional firms to large multinational companies opting for quality warehousing space. Thus, betting big on these factors, a number of city developers has forayed into the warehousing and logistics sector. While city-based developers Embassy Group announced plans to invest around USD 1 billion in the next 3-4 years through Embassy Industrial Parks - a joint venture with global private equity firm Warburg Pincus, others such as Brigade Group and Prestige Group have implied interest in the segment as well. Thus, with a steady growth in e-commerce industry and the advent of new technology, the warehousing industry of the city, as well as the whole nation, is set to witness a positive transformation, which in turn, is expected to boost growth for leading real estate players as well.

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