REVITALIZING THE INDIAN INDUSTRIAL AND WAREHOUSING SECTOR

Regulatory reforms propelling demand

Insights & Recommendations

After the easing of the COVID-19 induced lockdown restrictions, industrial activity has gradually begun to improve. This is an opportune time for industry players to revive focus on the manufacturing sector.

> We recommend manufacturers utilize government incentives to build suitable manufacturing facilities. We suggest electronics and pharmaceuticals companies focus on Bengaluru and Hyderabad, while the automotive segment should focus on Pune and Chennai.

> Leveraging accelerated adoption of e-commerce by consumers, we recommend developers and landlords work closely with professional real estate consultants to upgrade their facilities while securing built-to-suit and pre-commitments from e-commerce companies. We recommend e-commerce companies to look for options in the vicinity of Delhi-NCR, Hyderabad, Mumbai and Bengaluru.

> We recommend government agencies aggregate large contiguous land parcels at suitable manufacturing and logistics locations, which are free from encumbrances. This land can be made available for the private sector at a fair market value.

India as a manufacturing hub

Enablers

- Improved taxation system for the manufacturing industry
- Improving ease of doing business ranking
- High-and-low skilled labour (Spectrum of talent)
- Low labour costs
- Rising domestic demand, with a large middle-class population
- Fastest-growing e-commerce industry in the world[**]
- Infrastructure investment fund from the Government of India worth INR100 trillion (USD1.39 trillion) should result in lower logistics and supply chain costs
- Ongoing reforms by various state governments to attract manufacturing and logistics development

Source: Colliers International

India stands at the threshold of a new wave of industrial growth, as companies look to adopt technology and automation in their manufacturing and engineering set-ups, moving towards *Industry 4.0* - the transformation in manufacturing enabled by technology. The Indian manufacturing sector accounts for about 16% of the economy, and the government is looking to increase that to 25% by 2022 with the *Make in India* programme.[1] In 2020, during the COVID-19 pandemic, the government has become even more vocal about making India an attractive manufacturing destination for global and domestic companies through its initiative *Atmanirbhar Bharat*.

We believe that a thrust on manufacturing is imperative as every job created in the manufacturing sector leads to about three additional jobs[*] created in additional sectors such as infrastructure, real estate and retail and consumer services. Over the last five months, several state governments have made reforms to kickstart industrial activity in their respective states. In this report, we discuss the central and state governments' manufacturing reforms, specific recommendations for the government as well as recommendations for occupiers and manufacturing and warehousing developers.

[1]Ministry of Finance, Government of India. USD1 = INR75.0 on 16 July 2020. *https://www.industr.com/en/unlocking-the-manufacturing-potential-of-india-2348148
** https://www.cci.gov.in/sites/default/files/whats_newdocument/Market-study-on-e-Commerce-in-India.pdf

GOVERNMENT'S GREATER THRUST ON MANUFACTURING

India is increasing its attractiveness as a manufacturing hub for companies from across the world. Over the last few months, propelled in part by the economic slowdown, the central government and several state governments have initiated policies and reforms to make India competitive for global firms.

We believe that in 2020 India is better positioned to serve as a manufacturing hub led by low labour costs, an improved tax regime, an increased ease of doing business, a large domestic market. In 2019, India ranked 63 among 190 nations in the World Bank's Ease of Doing Business index, an improvement of 14 places.[2] We believe the following reforms will aid manufacturing firms in India.

Tax rebates to make domestic manufacturing more competitive

In 2019, the government changed the concessional rate of taxation to 17% (inclusive of surcharge and cess) for all new domestic companies engaged in manufacturing.[4] This is a cost benefit for Indian firms, and especially micro, small and medium enterprises, helping them become them more competitive. For context, this is compared to tax rate of 25% in China and 20% in Vietnam[5], making India more competitive globally. Moreover, the Goods and Services Tax (GST) introduced in 2017 is leading to a more efficient logistics system across the country.

Atmanirbhar Bharat: In pursuit of self-reliant India

The central government, focussing on Indian self-reliance, announced an INR20 trillion (USD267 billion) package of collateral-free loans and equity financing to build manufacturing capacities across sectors, and to promote local products.[3] This includes reforms such as fast-tracking investment clearance and upgrading of industrial infrastructure, among other plans. We believe this has opened a credit line for micro, small and medium enterprises (MSMEs).

Focus on labour reforms to clear a big roadblock

We believe that the upcoming labour reforms will make Indian manufacturing more competitive. The government has drafted new labour codes to regulate wages, define industrial relations, address occupational safety, health, and regulate social security.[6] Since labour is in the concurrent list*, we recommend that after setting up the codes, the state governments customise the set norms based on the local conditions.

COLLIERS AND INDUSTRY EXPECTATIONS FROM THE GOVERNMENT:

- Industry expects some tax waivers for manufacturing units directly proportional to employment generation.
- Colliers proposes that government agencies aggregate large contiguous land parcels at suitable manufacturing and logistics locations, which are free from encumbrances. This land can be made available to the private sector at a fair market value.
- Colliers recommends the government focus on improving contract enforcement by putting in place a stronger judicial mechanisms.
- We recommend the government focus on supporting infrastructure such as roadways, inter-state transport, and factory-to-port infrastructure to lower logistics costs, which currently stands at about 14% of the gross domestic product.[7]
- We recommend state governments follow the lead of Tamil Nadu and Telangana states and adopt single-window clearance for projects, a wide-ranging mechanism with specific timelines, that we believe will lead to a simpler and faster process.

[2] https://www.doingbusiness.org/en/reports/global-reports/doing-business-2020
[3] https://pib.gov.in/PressReleseDetail.aspx?PRID=1623391
[4] https://pib.gov.in/Pressreleaseshare.aspx?PRID=1585641
[5] https://www.hindustantimes.com/india-news/tax-cuts-will-attract-investors-looking-to-shift-from-china-nirmala-sitharaman/story-vqxemDl87z4ty7x6ZAejqL.html
[6] https://pib.gov.in/PressReleasePage.aspx?PRID=1595506
[7] https://economictimes.indiatimes.com/industry/transportation/shipping-/-transport/index-to-measure-logistics-costs-of-key-export-sectors-on-the-cards/articleshow/71486010.cms?from=mdr
*The Concurrent List is a list of 52 subjects with which both Parliament and state legislatures have jurisdiction.

INDIAN STATES BOOST MANUFACTRING BY INITIATING REFORMS

Several Indian states are taking steps to offer incentives to companies to expand their industrial facilities. We highlight certain reforms initiated over the last five months by states such as Uttar Pradesh, Maharashtra and Karnataka, and previously implemented reforms by other states.

State (City)	Reforms
Uttar Pradesh (Noida):	> In May 2020, the government passed[8] an ordinance to exempt businesses from the purview of major labour laws for three years, to attract fresh investments. > The Government is planning[9] to auction shuttered public sector undertakings (aka PSUs, the term for a state-owned enterprise in India) that fall under the industrial development department and create a land bank for industries by auctioning land owned by closed central PSUs.
Haryana (Gurugram)	> Haryana formulated a Logistics, Warehousing and Retail Policy, 2019, with an objective to create five logistics parks across the state with private sector participation.[10] > Policy aims to attract investment of INR100 billion (USD1.3 billion) and create 25,000 jobs focusing on cold chain facilities and retail hubs.
Maharashtra (Mumbai & Pune)	> In June 2020, the government announced[11] it would simplify the process of permissions required for setting up industries in the state. > By providing promotional incentives, the state is keen to attract investments for logistics parks in Mumbai and Navi Mumbai areas.[12]
Tamil Nadu (Chennai)	> Tamil Nadu has passed Business Facilitation Act, 2018, to improve ease of doing business by facilitating clearances and renewals to enterprises to improve the ease of doing business. Tamil Nadu has signed eight memorandums of understanding (MoUs) worth INR104 billion (USD1.3 billion) to set up their manufacturing units and generate employment in the state.[13] > Tamil Nadu Electric Vehicle policy, 2019, provides various concessions to manufacturers of electric-vehicles (EV). Apart from incubation services such as office space, common facilities and mentoring support, an EV Venture capital fund will provide financial support to EV start-ups. As of July 2019, Tamil Nadu accounts for 6.4% of the electric vehicles sold in the country. We expect this policy to increase the state's share of electric vehicles production.[14]
Telangana (Hyderabad)	> According to the government of Telangana, logistics is one of the 14 priorities identified in the state's industrial policy (TSiPass, 2014) and in October 2019, state government announced construction of 10 logistics parks along Outer Ring Road (ORR) with private participation.[15] > We expect these logistics parks to cater demand from the consumer goods, pharmaceuticals and defence sectors.
Karnataka (Bengaluru)	> In May 2020, the government made amendments to the Land Reforms Act to allow industries to buy agricultural land.[16] > In 2020, the government plans to exempt companies setting up industrial units from obtaining clearances under multiple state laws, including trade licenses and building plan approvals.[17]

[8] https://theprint.in/economy/key-labour-laws-scrapped-in-up-for-3-yrs-as-yogi-govt-brings-major-reform-to-restart-economy/416925/ [9] https://economictimes.indiatimes.com/news/politics-and-nation/uttar-pradesh-takes-steps-to-increase-land-availability-for-industrial-development/articleshow/76086782.cms?from=mdr [10] https://investharyana.in/content/pdfs/Notified%20LWR%20policy.pdf [11]https://auto.economictimes.indiatimes.com/news/industry/maharashtra-govt-to-simplify-process-to-set-up-industries-cm-thackeray/76543148 [12]https://maitri.mahaonline.gov.in/PDF/Maharashtra's%20Logistics%20Parks%20Policy%20-%202018.pdf [13] https://www.deccanherald.com/national/south/tamil-nadu-signs-mous-with-8-companies-worth-rs-10399-crore | [14]www.thehindu.com/news/national/tamil-nadu/watch-what-is-tamil-nadus-new-electric-vehicle-policy/article29475477 |[15]https://www.thenewsminute.com/article/ktr-inaugurates-22-acre-logistics-park-hyderabad-says-8-more-come-110403 | [16] https://www.karnataka.com/govt/industries-buying-land-in-karnataka/ |[17] https://timesofindia.indiatimes.com/city/bengaluru/karnataka-reform-to-support-industries-clears-scrutiny/articleshow/76350233.cms

INDIA ATTRACTING PRIVATE EQUITY INVESTORS' INTEREST

Investors see upside in industrial and warehousing assets

> We expect the inflow from both foreign and domestic funds to grow over the next 2-3 years as existing participants expand their portfolio and new players enter the market.

The industrial and warehousing sector in India has attracted significant investor interest since 2017 owing to the reforms introduced by the government. These reforms include implementation of the Goods and Services Tax (GST) regime, accordance of *infrastructure* status to the sector, the creation of a logistics park policy and the development of multimodal infrastructure, among others.

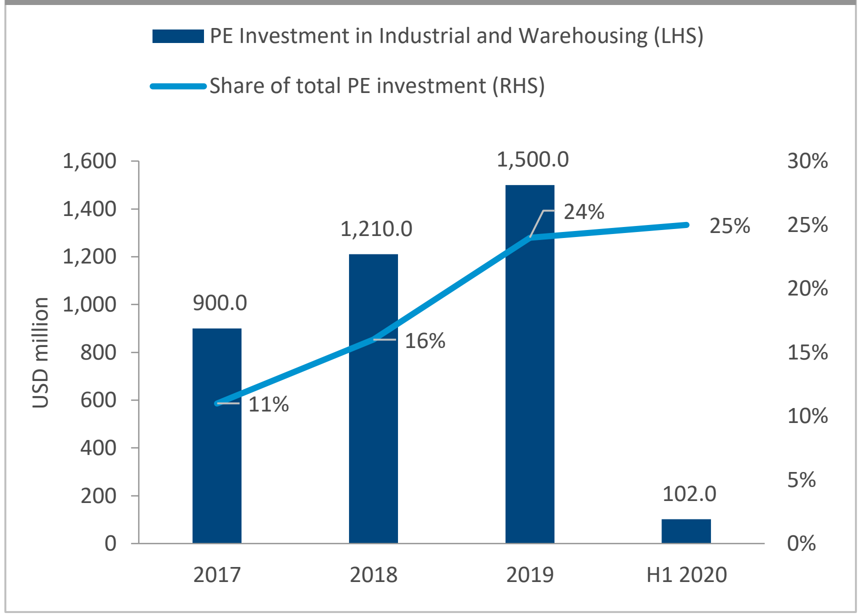
The warehousing sector that was characterized by fragmented sheds and godowns in the past is now becoming more organized, buoyed by the government policies. To capitalize on the growth potential of the reorganized segment, the sector has attracted significant investor interest. Per Colliers International, since 2017, the sector has attracted interest from multiple large institutional investors, with investment inflows of INR278 billion (USD3.7 billion). Between 2017 and H1 2020, the sector garnered a considerable 17% share of total private equity real estate investment.

This segment's share of total private equity real estate investment in the India has been increasing year-on-year since 2017, signifying the increasing attractiveness. During 2019 through H1 2020, the industrial and warehousing segment garnered the third highest share of private equity investments after office and retail.

Further, this investment capital came from foreign investors such as the Abu Dhabi Investment Authority, Canada Pension Plan Investment Board (CPPIB), Ivanhoe Cambridge, Ascendas, Blackstone, and Mapletree, to name a few.

Investment activity may be muted for the next one year due to slower decision-making by investors because of the ongoing pandemic. However, we expect the inflow from both foreign and domestic funds to grow over the next 2-3 years as existing participants expand their portfolio and new players enter the market. Owing to robust demand from e-commerce and other consumer-led occupiers, we expect the segment to bounce back quicker than other segments of real estate.

Private equity investment in industrial and warehousing in India



Source: Colliers International

CHINA+1: OPPORTUNITY INDIA

COVID-19 accelerates global supply chain rebalancing, India well positioned to gain market share

COIVD-19 has fast tracked the global supply chain rebalancing which was triggered by the US-China trade war. Globally, manufacturing companies are actively evaluating a *China+1* supply chain strategy, wherein they establish an incremental supply base outside China.[18]

We expect India, with its large labour force and domestic consumer market, to be in a good position to increase its global supply chain market share in the next 3-5 years. Our interaction with key developers in the industry suggests that automotive and electronics and are expressing interest in setting up facilities in Bengaluru and Coimbatore, and that some of these companies may shift some manufacturing from China to India over the next two years.

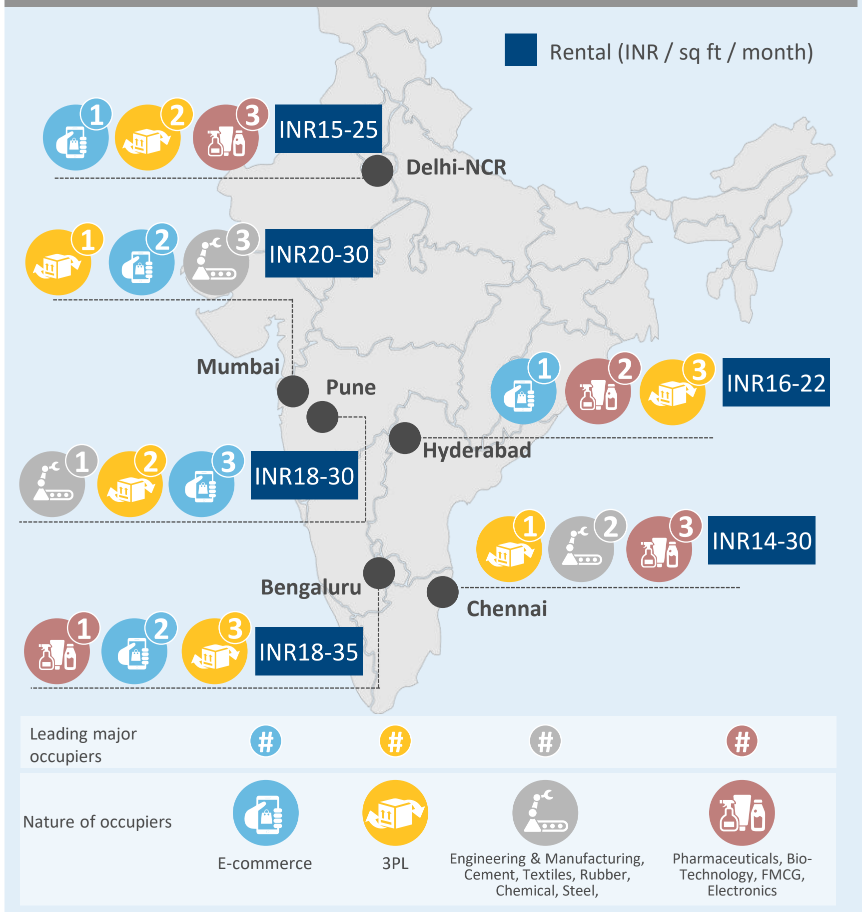
The Indian government is also proactively providing regulatory and fiscal support to incentivise global companies to establish their manufacturing base in India. For instance, the Ministry of Electronics and Information Technology has announced incentives worth INR480 billion (USD6.4 billion) for electronics manufacturers and is likely to ease norms for plant evaluation to ease the shifting of manufacturing bases by electronics companies. Government initiatives are already bearing fruit as India continues to attract major corporates from across the US and European region. Apple is looking to shift nearly one-fifth of its contract manufacturing to India in anticipation of producing INR3.0 trillion (USD40 billion) worth of smartphones in next five years.[19] Also, Foxconn plans to invest up to INR75 billion (USD1.0 billion) to expand a factory in southern India where the Taiwanese contract manufacturer assembles Apple iPhones.[20] Further, a German footwear brand Von Wellx plans to shift its entire production from China to India, bringing an initial investment of INR1.1 billion (USD15 million).[21]

Anecdotally, a large chemicals manufacturer suggests that they are planning to indigenize their supply chain. The manufacturing facility in India is scheduled to become operational by early 2021, which should replace their current supply source from East Asia.

> We are bullish on the growth of industrial sector in India. During the lockdown, we received enquiries from companies in bio-technology and pharmaceuticals segment expressing interest in southern cities in India to move their manufacturing facilities from China.
>
> -ATB Logistics and Industrial Parks

We recommend manufacturers utilize government incentives and scout for suitable manufacturing facilities. We recommend electronics and pharmaceuticals companies focus on Bengaluru and Hyderabad, while the automotive segment should focus on Pune and Chennai. The entry of global manufacturing multinationals into India should provide a boost to the country's exports along with generating increased demand for warehousing facilities.

India, sector-wise demand ranking, 2020



Source: Colliers International

[18] https://tfipost.com/2020/04/big-hyundai-steel-and-several-other-south-korean-majors-are-all-set-to-shut-china-factories-and-move-to-india/
[19] https://www.timesnownews.com/business-economy/companies/article/apple-plans-to-shift-20-of-production-capacity-from-china-to-india-eying-40-billion-export-revenue/590043
[20] https://economictimes.indiatimes.com/tech/hardware/apple-supplier-foxconn-to-invest-1-billion-in-india-sources/articleshow/76931415.cms
[21] https://www.theweek.in/news/biz-tech/2020/05/20/german-footwear-brand-shifts-production-to-agra-from-china.html

India has a huge potential to attract large scale investments into the industrial and warehousing sector, given companies are considering shifting their supply-chains from China to India.

To tap this potential demand, we are looking to expand our footprint in urban centres of Mumbai, Bengaluru and the NCR, besides our existing assets in Pune.

We believe the Pune market will grow at about 30% year-on-year, on the back of strong domestic demand.

-KSH Infra

E-COMMERCE AT THE FOREFRONT OF WAREHOUSE DEMAND

Growth in India's e-commerce sector is the fastest in the world with revenues from the sector expected to reach INR9.0 trillion (USD120 billion) in 2020.[22] The uptick in e-commerce led warehousing demand is visible from significant investments in warehousing space made by leading e-commerce majors as Amazon and Flipkart. As of July 2020, Amazon plans to set up 10 new fulfilment centres across the country to increase its warehousing capacity by 20%. After this expansion, Amazon will have about 60 fulfilment centres with more than 32 million cubic feet (906,100 cubic metres) of storage space spread across 15 states.[23]

E-commerce companies are driving demand for fulfillment centres, which are large warehouses wherein products are sorted and packaged for delivery after they are picked up from sellers.

During the COVID-19 pandemic, the e-commerce ecosystem has witnessed a significant shift, with e-commerce players witnessing a steep rise in order volumes. E-commerce players dealing with groceries such as BigBasket and Grofers have reported a five-fold rise in sales during the initial phase of lockdown and it is reported that India's online grocery market sales may reach INR225 billion (USD3.0 billion) in 2020, registering a growth of 76% from 2019.[24]

To cater this growing online consumer demand, e-commerce players are looking to strengthen their supply chain and logistics capabilities. Leveraging accelerated adoption of e-commerce by consumers, we recommend local developers and landlords to work closely with professional real estate consultants to upgrade their facilities while securing built-to-suit and pre-commitments from e-commerce companies. We recommend e-commerce companies to look for options in the vicinity of Delhi-NCR, Hyderabad, Mumbai and Bengaluru.

[22] https://www.cci.gov.in/sites/default/files/whats_newdocument/Market-study-on-e-Commerce-in-India.pdf
[23] https://economictimes.indiatimes.com/industry/services/retail/amazon-flipkart-to-increase-warehouses/articleshow/75523490.cms?from=mdr
[24] https:// economictimes.indiatimes.com/small-biz/startups/newsbuzz/egrocery-may-clock-3-billion-sales/articleshow/75880946.cms

OCCUPIERS' STRATEGIES TO ENHANCE ASSET UTILISATION

Short-term leases becomes a trend

We believe that the COVID-19 led nationwide lockdown from March 2020 till June 2020, will delay the completion of new warehouses. Our interactions with key developers in the industry suggest a delay of up to two quarters due to the limited availability of labour and supply-side disruptions.

The delay in delivery of logistics assets is likely to pose a near-term challenge for e-commerce players catering to the heightened demand during the approaching Indian festive season starting from October. In order to tide over the immediate requirement, e-commerce and third-party logistics (3PL) operators have been scouting for short-term warehousing space. Media reports suggest that Amazon and Flipkart are actively leasing out short-term warehouse space to cater to growing demand from consumers.[23] Anecdotally, industry participants also suggests that developers are receiving considerable enquiries from e-commerce companies for temporary, 12-month space in Pune and Bengaluru.

The near-term demand from e-commerce players is likely to be a win-win proposition for select tenants in manufacturing sector. We recommend occupiers who are unable to utilise all their existing warehouse space, especially auto and electronics manufacturers, explore options to sublease their unutilised space for a short period to other tenants. Such sub-leasing meets the objective of e-commerce players and simultaneously enables manufacturing players to reduce their rental-cost burden.

In-city warehouses to gain traction

E-commerce companies are focussing on same-day delivery with the pandemic influenced lockdowns placing greater dependency on e-commerce for food and grocery items. E-commerce companies are now trying to stock a larger proportion of inventory closer to their customers' locations for efficiency and to improve the quality of products upon delivery.

We recommend that e-commerce companies consider securing warehousing locations close to their customer base within the city limits. Over the next 12 months, we believe *in-city* warehouses will gain traction, to be used as small distribution hubs. We expect occupiers to scout for *in-city* warehousing space in the range of 5,000-10,000 sq feet (464-929 sq metres) in major demand hubs such as Mumbai, Bengaluru and Chennai and the NCR. Considering the challenges of last-mile delivery due to the lack of such facilities in core city areas, occupiers are now turning to available older/lesser utilized ground level office spaces, service centres, pending minor structural changes.

> Occupiers are now turning to available older/lesser utilized ground level office spaces, service centres for *in-city* warehouse space.

COVID-19 to accelerate technology adoption in warehousing

COVID-19 has increased the focus on contactless environment, as companies look to increase logistics efficiency, and reduce expenses, giving rise to a higher demand for automated technologies. E-commerce occupiers are early adapters of technologies such as warehouse management systems (WMS) for optimizing tasks like locating parcels and choosing the right size and type of packaging.

Over the next few years, we expect greater amalgamation of technologies such as the IoT, radio frequency identification (RFID), automation and robotics to enable companies to more efficiently coordinate inventory management, warehousing, and delivery. These technologies help avoid inventory damage, while creating transparency on throughput to pick and process orders with greater efficiency. The tech-driven approach allows suppliers to cater to occupiers' requirements cost-effectively and time-efficiently.

Despite the cost implications, automation is transforming supply chains due to growing foreign direct investments into the logistics sector and central government granting infrastructure status to the sector. The recent lockdowns have highlighted the need for automation in supply chain operations, as volumes rise and the availability of labour is disrupted. The Municipal Corporation of Greater Mumbai switched to Robotics Process Automation (RPA) during lockdown with the help of UiPath and EY India to generate bulk e-passes for service aggregators supplying essential services to residents of Mumbai.[25]

> **"The warehousing and logistics asset class has emerged as the most resilient real estate segment since the pandemic.**
>
> **The COVID-19 crisis has led to a major shift in consumption patterns, e-commerce and within that, the grocery segment has seen unprecedented growth; leading to an increase in demand for in-city distribution centres and logistics spaces situated close to Tier 1 & Tier 2 cities.**
>
> **As occupiers put increased emphasis on automation, digitization and safety standards, the pace of shift from Grade B/C to Grade A facilities will increase further; which will also help occupiers enhance operational efficiency."**
>
> **-ESR India**

An example of warehouse automatic management system

[25] https://www.livemint.com/companies/news/automation-enables-indian-organisations-to-wade-through-logistics-issues-exposed-by-covid-19-11591961477961.html

About Colliers International

Colliers International (NASDAQ, TSX: CIGI) is a leading real estate professional services and investment management company. With operations in 68 countries, our more than 15,000 enterprising professionals work collaboratively to provide expert advice and services to maximize the value of property for real estate occupiers, owners and investors. For more than 25 years, our experienced leadership, owning approximately 40% of our equity, has delivered compound annual investment returns of almost 20% for shareholders. In 2019, corporate revenues were more than $3.0 billion ($3.5 billion including affiliates), with $33 billion of assets under management in our investment management segment. Learn more about how we accelerate success at corporate.colliers.com, Twitter or LinkedIn

Colliers INTERNATIONAL