

Warehousing Segment Facing Headwinds over Rising Costs

Sobia.khan
@timesgroup.com

Bengaluru: The warehousing segment is facing headwinds after years of growth as rising costs have led to fresh space inflows being pushed out by at least two quarters.

As a result, the delay in fresh inventory has led to increased rentals and land acquisition costs.

And with rising interest rates, a slowdown in space uptake by companies—particularly e-commerce—due to the dampening of consumer demand, developers are seeking pre-commitments from occupiers.

The warehousing segment has now joined other real estate segments, including residential, commercial and retail which are witnessing increased acquisition costs, leading to deferment of new units in some cases.

"While the demand for warehousing at a macro level looks promising with demand outstripping supply, the expected slowdown in consumer sentiment and a significant rise in input costs and rentals are keeping occupiers at bay and developers are holding themselves back from investing in new projects. The long-term potential of the industry looks bright, but there is short-term disruption," said Ashish Joshi, founder of Landmark Capital.

According to a report by Savills India, Mumbai and Kolkata witnessed the highest construction costs at Rs 2,115 per sq. ft. for grade-A warehousing space in the first quarter of 2022, followed by Pune, which saw the costs at Rs 2,100 and Rs 3,265 per sq. ft., respectively.

The increase in construction costs was fuelled by rising raw material prices for crude oil, steel, aluminium, cement, equipment rental costs, plumbing and labour.

And it resulted in developers going slow on new launches and seeking more built-to-suit



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projects to ensure guaranteed realisation of their investments.

"On the supply side, we may see some limitations over the next few quarters as developers face supply chain constraints and rising input cost materials," says Vimal Nadar, Senior Director and Head of Research, Colliers India.

The rise in construction costs will force many warehouse builders to study their cost-revenue structure again. "We expect a further increase in leasing or rental costs, which will result in subdued investments before they pick up again. Many warehouse builders are going back to the drawing board," said Sandeep Chanda, managing director, India, at Panattoni.

However, according to experts, the long-term picture looks promising for the industry with government policies like 'Gati Shakti', an improved rail and road network, and a growing direct-to-consumer (D2C) business in India. "The construction costs have gone up but are showing some signs of flattening with manufacturing and retail segment leasing picking up," said Abhijit Malkani, CEO & Country Head, ESR India.

A report by industry body Assocham and international property consultant JLL states that the total stock of Grade A and B warehousing space in the top eight cities witnessed a 21% y-o-y growth in 2021, taking the overall warehousing space in the country to 287 million sq. ft. at the end of 2021 as compared to 238 million sq. ft. in the previous year and is expected to touch nearly 500 million sq. ft. by 2025.