

Industrial, logistics real estate sector most resilient asset class: JLL

Apart from Tier-I cities, Tier-II cities including Lucknow - Kanpur, Ranchi, Patna, Bhubaneswar Goa, Aurangabad, Ahmedabad, Kochi, and Coimbatore are expected to reshape the segment



The demand for e-commerce and pharmaceutical services have ensured that India's industrial and logistics real estate industry has remained the most resilient asset class in the first quarter of 2020.

As the coronavirus pandemic has significantly impacted businesses and economy worldwide, consumers have shifted consumption activity to online transactions, according to a study by JLL.

India's warehousing sector — driven by new supply in eight major metros including Ahmedabad, Bengaluru, Chennai, Hyderabad, Kolkata, Mumbai, Delhi NCR and Pune — saw about 15 per cent contraction (in mn sqft) during January-March, the first quarter of 2020.

Net absorptions stood at 5.9 mn sq/ft in the midst of the lockdown across the country starting March 2020.

Strong fundamentals

"The quarterly new supply addition is higher than the average quarterly new supply addition of first quarter in the last three years (between 2017 and 2019) which demonstrates that the impact of lockdown has likely not set in yet," the report said.

"Modest absorption amidst the Covid-19 uncertainties hints that the fundamentals of the industrial and logistics sector is strong and set to take a faster revival route among major real estate asset classes," said Ramesh Nair, CEO and Country Head, India, JLL.

The projected supply of speculative spaces may be delayed by a quarter or two, which will also be influenced by factors including protracted labour shortages.

As the impact of the national lockdown becomes clearer, the leases and active request for proposal (RFPs) that were in various stages of closure are likely to be completed in the third and fourth quarters of 2020.

E-commerce, logistics to drive demand

Post-lockdown, demand is likely to be driven by e-commerce and third-party logistics (3PL) players who will continue to explore urban spaces. Grade A properties will be more attractive to occupiers due to health and safety considerations, the study said.

"The extended lockdown in the country will also impact the under-construction projects resulting in an attenuated supply in the short-term. However, absorptions and demand in warehousing sector is likely to take a positive turn in the medium-to-long term phase," said Yogesh Shevade, Head-Industrial Services, India, JLL.

Pent-up demand and project closures may be pushed by two quarters with an expected spark in activities by fourth quarter. However, the fundamentals of the sector remain strong and the biggest advantage for India remains in the potential to capture manufacturing demand as companies re-position their global supply chains from a business continuity planning (BCP) standpoint.

Impact on logistics sector

The lockdown has frozen supply chains across multiple sectors, both in production and stockpiling.

"These restrictions have also limited transactions in the growth-oriented e-commerce sector," the report added.

However, after the lockdown, a change in consumer behaviour is expected to benefit e-commerce and e-payments, which is already being observed through movements of essential commodity.

The report highlights that the medium-term will experience an uptake in demand of urban logistics and in-city warehousing. The logistics sector is expected to see long-term growth as e-commerce expands and with enhanced infrastructure support.

Sectors such as FMCG, e-commerce, pharmaceuticals and cold storage will see an increased growth and demand for the additional warehousing spaces. On the other hand, a few sectors like auto, heavy machinery and chemicals, may look for short-term rent abetments for one-to-two months.

"Investors might remain cautious, critically scrutinising portfolios before deploying capital for investments. However, the industrial asset class might emerge as a safer investment option compared to other real estate asset classes," the report added.

