

India's Top-Tier Warehousing to See 2X Growth by 2028 Amid Tight Vacancy



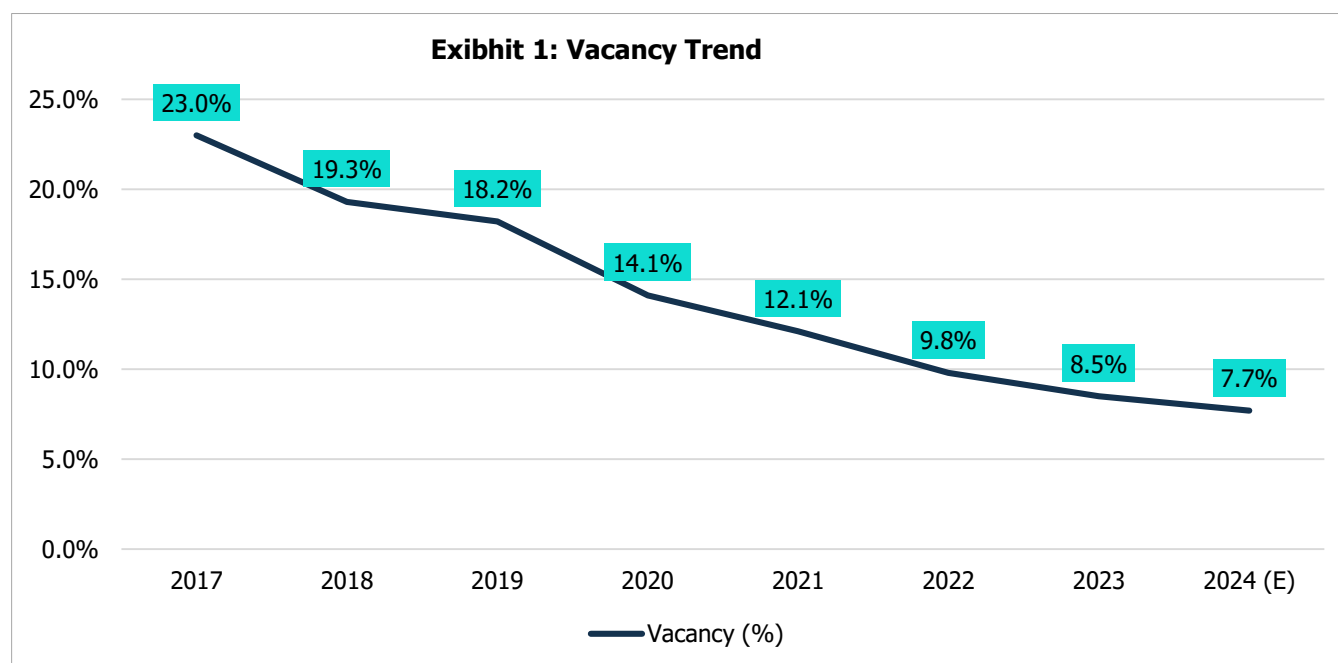
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Synopsis

- In 2025, the global economic landscape remained intricate, influenced by enduring inflationary pressures, shifting central bank policies, newly imposed tariffs by the United States, and persistent geopolitical tensions. Amid these global challenges, India continued to demonstrate economic resilience. While the Reserve Bank of India (RBI) revised its GDP growth forecast for FY2026 from 6.7% to 6.5%, its growth trajectory remains comparatively strong when measured against other major economies.
- A key driver of India's sustained economic growth is the government's strong emphasis on manufacturing and infrastructure development, which has fostered a conducive environment for the expansion of commercial real estate, particularly in the warehousing sector. This momentum is supported by strategic policy initiatives like Make in India, the Production Linked Incentive (PLI) scheme, the National Manufacturing Policy, and the National Logistics Policy, which have collectively spurred industrial activity and improved supply chain efficiency.
- Through this opinion piece, CareEdge Ratings delves into noteworthy trends in the warehouse leasing segment, future growth drivers, credit rating landscape and the medium-term outlook for the segment.
- The positive impact of the policy measures is evident in the growing demand for Grade A warehouse space. While e-commerce led the growth right after the pandemic, the 3PL and manufacturing sectors have been the key demand drivers over the past four years and will continue to be so in 2024. This rising demand in the Grade A warehouses has decreased vacancy levels to about 8%. The Union Budget 2026 provided additional support by announcing infrastructure support for air cargo warehousing and streamlined customs procedures. These steps are expected to enhance cargo efficiency, reduce delays and costs, and minimise the spoilage of perishable goods.
- Amidst the rapid infrastructure development in Tier 2 & Tier 3 cities, many companies are expanding their reach to these cities. Their proximity to major markets, improving infrastructure, and lower land and construction costs make them attractive for warehouse investment.
- CareEdge Ratings anticipates that India's total grade A warehousing stock will exceed 420 million square feet (msf) by 2028, with vacancy rates expected to stay below 10%.

The Quiet Revolution in India's Supply Chain

India's warehousing sector has been rapidly transforming since CY2020, evolving from a fragmented and traditional industry into an organised segment central to the nation's economic growth. This shift is propelled by escalating demand for modern, large-scale warehouses, strengthened by significant private equity investments. The surge in demand for Grade A warehousing spaces is primarily driven by the expansion of third-party logistics (3PL) providers, manufacturing sectors, and the burgeoning e-commerce industry, leading to historically low vacancy rates. Additionally, the rise of quick-commerce intensifies the need for strategically located in-city warehouses to facilitate swift deliveries. Exhibit 1 shows the vacancy trends for 2017-2024 (E).



Source: Various industry reports

Note: Period refers to calendar year, and data for the top 6 cities (Pune, MMR, Chennai, Bangalore, Hyderabad and NCR)

Storage Meets Strategy - The Boom in Warehousing

India's warehousing sector is estimated to reach \$35 billion by 2027, witnessing a CAGR of ~15% from 2022. Several transformative trends, outlined below, underpin this surge:

i. E-commerce Revolution:

The rapid growth of e-commerce platforms has driven a significant surge in warehouse demand, especially for those designed for fast order fulfilment and efficient last-mile delivery. Rising consumer expectations for quicker deliveries have made developing multiple strategically located fulfilment centres essential.

ii. Manufacturing Sector gaining momentum:

Companies in the manufacturing sector, such as those in the automotive, energy, and chemicals industries, accounted for a transaction volume of ~22 msf in 2024, translating to an 18% y-o-y growth in the area they leased during the period. The manufacturing sector accounts for 39% of the total transacted volume in the warehousing space in CY24.

iii. Third-Party Logistics (3PL):

The 3PL sector is revolutionising warehousing by offering innovative logistics solutions that enhance supply chain efficiency, such as automation, rooftop solar panels, etc. In 2024, 3PL providers accounted for over 40% of total warehousing demand.

iv. Government push:

Initiatives such as the National Logistics Policy, Make in India, the Production Linked Incentive (PLI) scheme, IGBC Certification and PM Gati Shakti have catalysed manufacturing and improved infrastructure. While India is not yet among the top global warehousing hubs, its strategic initiatives, market growth, and infrastructural developments position it as a rising contender in the global logistics landscape.

v. Technological Advancements:

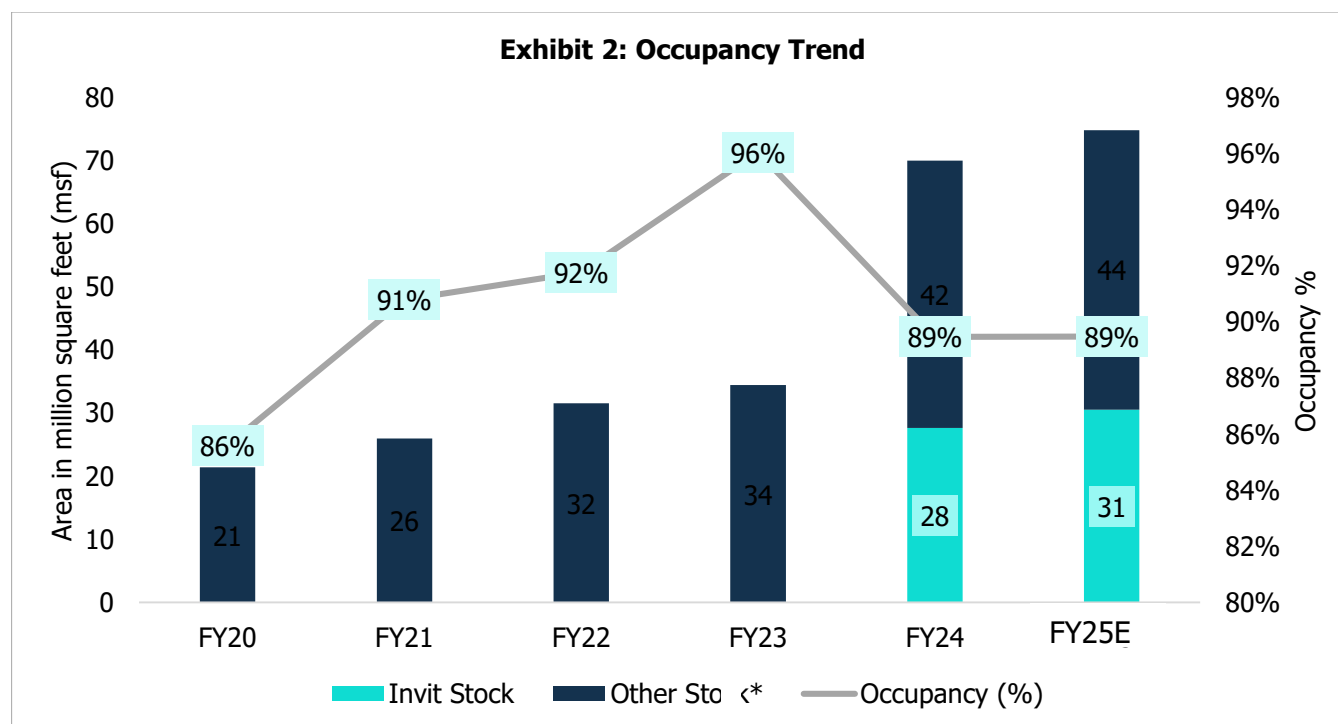
Integrating AI (Artificial Intelligence), IoT (Internet of Things), and automation into warehousing operations has streamlined processes and reduced operational costs. From innovative inventory management to predictive analytics, technology is transforming traditional warehouses into smart ecosystems.

Thus, convergence of policy, technology, and market demand has made warehousing a critical enabler in fulfilling India's long-term economic ambitions.

Role of INVITs in Accelerating India's Warehousing Sector:

The Indian warehousing sector, which is rapidly growing, presents a strong opportunity for INVITs, as these vehicles can provide much-needed capital for the construction, modernisation, and operation of logistics infrastructure.

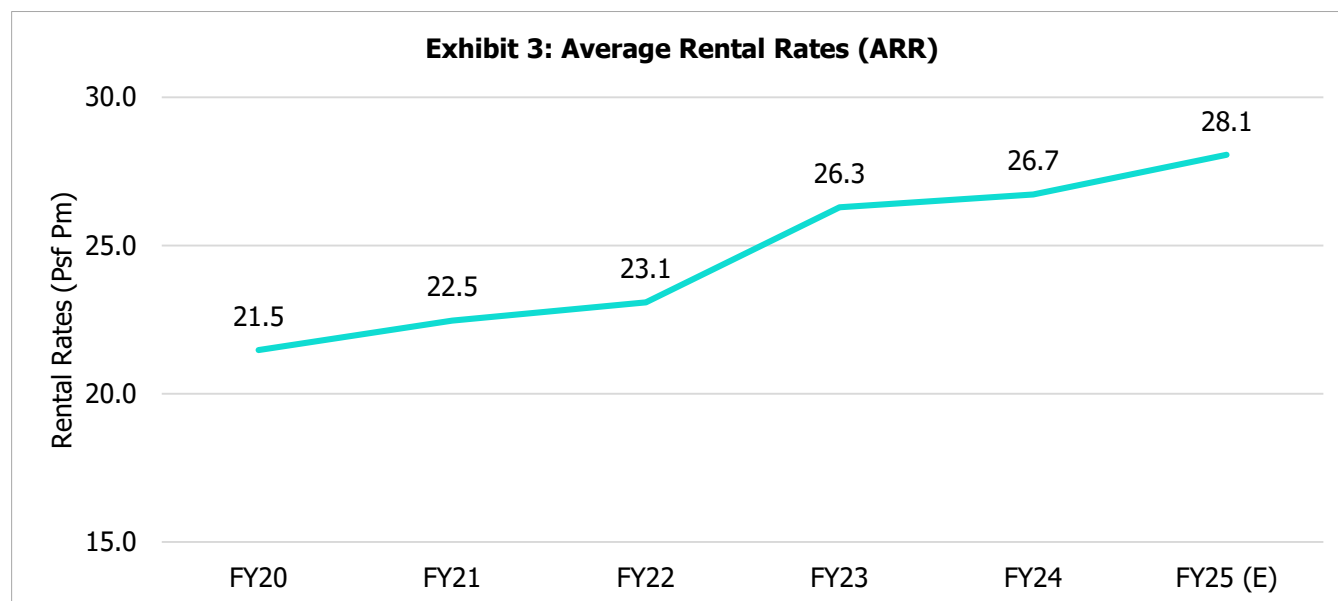
This potential was realised during FY24 and FY25, with two INVITs holding sizable warehousing portfolios emerging, significantly boosting the sector's expansion. Consequently, the grade A stock in our sample set has more than doubled from FY20 to FY24, while occupancy levels have remained strong, consistently near 90%.



Source: Company's financials, Investor Presentation & DRHP; CareEdge Ratings

Note: The Sample Set consists of INVITs and various large companies holding a portfolio of GRADE A warehousing assets, accumulating to over 70 Msf of stock as of March 31, 2024.

On the rental front, rates have seen a gradual increase. Warehouse rentals are rising due to strong demand and limited supply, especially in key consumption-led micro-markets. Occupiers increasingly seek modern, built-to-suit, and well-connected Grade A facilities, often at a premium. Infrastructure upgrades and low vacancy rates in strategic locations further push rentals upward. The average rental rate for INVITs is over Rs 50 per sq-ft per month. For non-INVIT stock, we expect steady rental growth, with average rates at ~Rs 28 per sq-ft per month for FY25(E) and further expected to increase to ~Rs 30 per sq-ft per month for FY26(P).



Source: Company's financials, Investor Presentation & DRHP; CareEdge Ratings

Private Equity (PE) investments recover; warehouse now leads over office:

CY23 witnessed a slowdown in PE investment due to global economic uncertainties and high interest rates, falling below \$700 million. However, the investments rebounded over \$1,800 million, marking a year-on-year growth of over 150% in CY24.

The warehousing sector led with 45% of total investments, surpassing the office sector, which has been at the forefront since CY18, reflecting increased focus of PE players towards logistics infrastructure. The rise in private equity investment in India's warehousing sector is linked to the growth of e-commerce and outsourced logistics, which are supported by government measures to improve infrastructure and industrial activity. The increasing demand for organised, technology-enabled warehouses offering stable, long-term leases attracts investors seeking steady returns and portfolio diversification. Additionally, the growing presence of Infrastructure Investment Trusts (INViTs) has improved liquidity and exit opportunities, making warehousing one of India's most attractive real estate asset classes for private equity today. Furthermore, the Warehousing sector falls under infrastructure, which enables it for RBI's HML (Harmonised Master List) benefits such as easier access to loans, longer tenure and eligibility to borrow from IIFCL (India Infrastructure Financing Company Limited), making it further attractive for investors.

Geographies of Growth – Mapping the New Warehousing Hotspots beyond metros

The geography of warehousing in India is rapidly changing. While traditional centres like MMR, Delhi-NCR, and Pune continue to dominate, new location preferences are emerging in Tier 2 and Tier 3 cities:

- **Bhiwandi & Chakan (Maharashtra):** An age-old warehousing hub now modernising its facilities.
- **Nagpur & Indore:** Strategic central locations facilitating pan-India distribution.
- **Lucknow & Jaipur:** Rising due to infrastructure development and land affordability.
- **Mannur & Mappedu (Tamil Nadu):** Buoyed by major electronics and EV manufacturing investments, the state is seeing a surge in Grade A warehousing, particularly in Chennai and Hosur.

The shift is largely driven by improved road connectivity (Bharatmala project), the development of dedicated freight corridors, and a rapidly growing online consumer base in non-metro cities. Contributing factors include lower land costs, rising purchasing power, evolving consumer aspirations, and the need to be closer to emerging consumption hubs.

Steady Expansion likely, yet few headwinds persist

India's warehousing sector continues to experience steady growth, driven by robust demand and supportive policy measures. However, despite this bullish outlook, the industry faces several structural challenges that could impact its long-term potential.

One of the primary hurdles is land acquisition. In many emerging warehousing corridors, unclear land ownership records and bureaucratic delays complicate the process, while suitable land remains scarce, especially in key logistics hubs. This scarcity poses a significant barrier for businesses looking to expand their footprint. Achieving a competitive rental yield will remain crucial.

Regulatory fragmentation across states further complicates logistics operations, as inconsistent policies impede the creation of a seamless national supply chain network. Additionally, labour challenges are becoming increasingly apparent. While warehousing offers substantial employment, the increase in automation has widened the gap between the demand for skilled logistics professionals and the available workforce.

The sector also faces model-specific risks: warehouses built on a "built-to-suit" basis are vulnerable to concentration risk; "construct-to-sell" models carry saleability risk; and "construct-to-lease" warehouses face lease rollover uncertainties. Compounding these concerns is the risk of speculative overbuilding. In regions where infrastructure development lags or demand projections fall apart, oversupply could become an issue, a scenario also influenced by the broader global economic slowdown.

For India to fully harness the vast potential of its warehousing sector, it is essential to tackle these challenges. This requires streamlined regulatory frameworks, focused workforce training programs, and enhanced public-private collaboration.

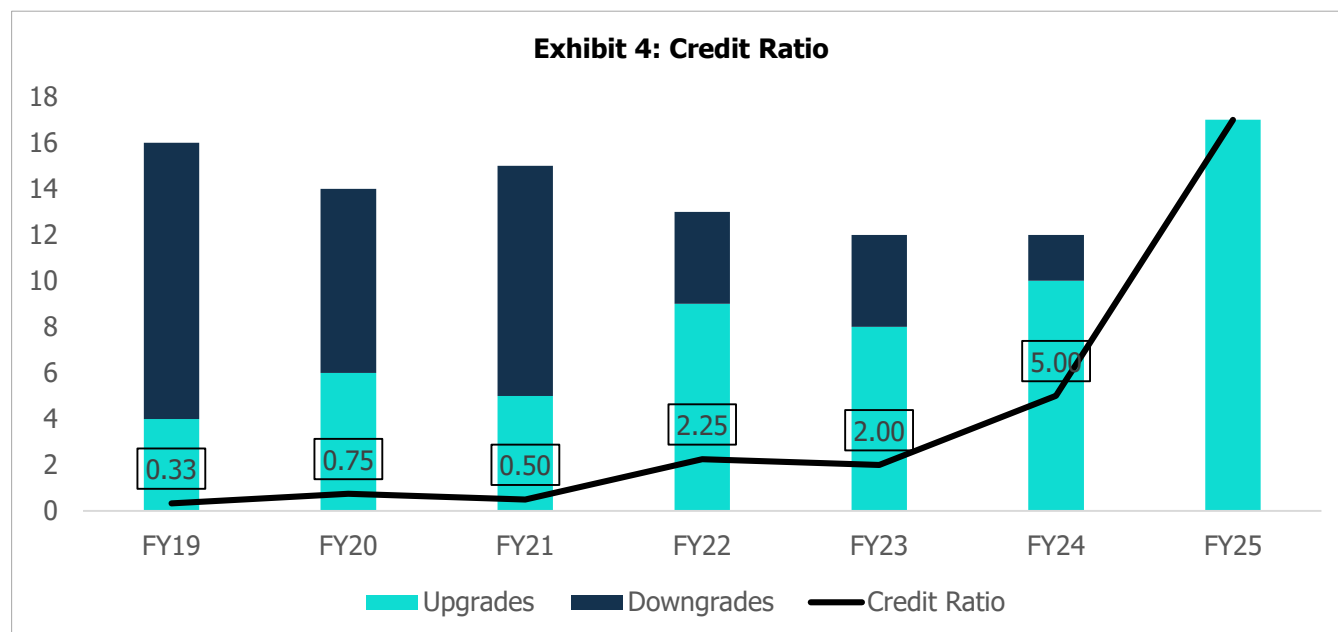
Rating Movement:

The overall leasing segment has maintained a high credit ratio (implying a number of upgrades to downgrades) at over 2x, as highlighted in Exhibit 4, following a robust upswing in the warehouse leasing market since FY22.

Before FY22, the industry typically recorded credit ratios below 1x, driven by increased vacancies and unenvisioned debt, resulting in an adverse financial risk profile. However, the recent improvement in the credit ratio can be attributed to enhanced operational performance, higher leasing activities, superior sponsor profile, improved cash flow generation, and strengthening financial matrices.

A key highlight is that there were zero downgrades in FY25, marking a significant shift in credit quality, primarily attributed to the stable financial performance of players.

Nonetheless, CareEdge Ratings continues monitoring the impact of inflationary pressures, interest rate movement, tenant profile, consumption behaviour and other macroeconomic factors to assess the resultant impact on warehouse leasing demand and the rated portfolio.



Source: CareEdge Ratings

CareEdge Ratings' view

CareEdge Ratings projects warehouse absorption growth at approximately 8% YOY, supported by rising demand for Grade A warehouse spaces.

"Robust demand, coupled with a steady supply of Grade A warehouse spaces, is likely to keep vacancy levels in the 9-11% range," says Divyesh Shah, Director, CareEdge Ratings. "The convergence of automation, real-time inventory tracking, and ESG compliance is defining the future of warehouse leasing. These factors are no longer optional; they are essential inputs determining the viability and competitiveness of warehousing facilities. As businesses strive to minimise human error, streamline operations, reduce costs, and meet sustainability goals, the demand for intelligent, eco-efficient, and well-governed warehouse solutions is also intensifying," he adds.

"The projected growth of over 60% in warehouse stock by 2027 reflects the strong expansion momentum in core markets like Chennai, Hyderabad and NCR. This growth is largely demand-led, driven by the continued rise of e-commerce, manufacturing, and 3PL activity. As demand deepens and quality supply remains concentrated in prime micro-markets, rentals are expected to grow at 4–5% annually." Says Amita Yadav, Assistant Director, CareEdge Ratings.

Conclusion – Warehousing as a Bellwether for India's Industrial Future

India's warehousing sector may have once been overlooked, but today it plays a vital role in the country's growth. As infrastructure, policy, and private enterprise align, the sector evolves from mere storage to strategic advantage. However, India's success will depend on its ability to resolve systemic challenges and embrace technological and regulatory innovation. Today's warehouses may be the workshops of a brighter, faster, and more competitive India tomorrow.

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