



NAVIGATING IN-CITY WAREHOUSING: CONSUMER TRENDS, LOCATION DYNAMICS AND FINANCIAL VIABILITY





What is an in-city warehouse and why is it required?

An in-city warehouse is a strategically located facility designed to hold, process and distribute goods within a specific urban catchment area. This differs from traditional warehouses that are usually located outside city limits in demarcated industrial zones. The goal of in-city warehouses is to move inventory as close to the consumer as possible, thereby minimizing transportation time and cost, which leads to supply-chain efficiency.



Higher demand for in-city warehousing

The requirement for in-city warehousing facilities is gaining importance for multiple reasons:

- ① **Change in customer behaviour:** In metro and tier-1 cities, customers are demanding the convenience offered by “kirana” stores to be enhanced via doorstep delivery within a short timeframe, especially for essentials such as food, grocery and medicines. As a result, e-commerce companies are concentrating on slot-based/instant delivery, and brick-and-mortar retailers are increasing their focus on same-day delivery for their omnichannel sales, leading to required storage space closer to their target customers.
- ② **Streamlining last-mile and reverse logistics:** Last-mile distribution accounts for ~40–50 percent of total logistics cost. Given their proximity to demand centres, in-city warehouses help reduce delivery timelines and last-mile logistics cost. Further, they improve responsiveness for returns or replacement of items.
- ③ **Cost-effective infrastructure:** Most of the existing in-city warehouses (which are Grade B properties) are spaces repurposed for use from commercial complexes such as unused office spaces, defunct supermarkets, grocery stores, restaurants, industrial sheds, hotels, cinema halls and unused covered parking spaces. The capex required to repurpose these units typically ranges between ~INR 30–40 lakh (for a 2,000–2,500 sq. ft. box). However, over the next two to three years, companies are expected to upgrade to Grade A warehouses which offer better build quality, infrastructure, security and equipment, and have all regulatory approvals in place, but require a higher capex as they are usually greenfield projects.
- ④ **Ability to process a high number of orders:** In-city warehouses can act as a sorting centre which helps companies break bulk shipments and process a higher number of orders than a traditional warehouse. An average in-city warehouse with ~2,000–3,000 sq. ft. of usable space can process more than 500 orders per day. These are typically high-demand products, enabling companies to achieve high inventory turnovers.

Why is there a requirement for Grade A in-city warehouses?

The current in-city warehouses are refurbished abandoned units that can usually suffice only for dark stores (for quick commerce and slot-based delivery) and last-mile sorting centres. However, the changing demands of existing users and the specialized requirements of evolving use case industries will require a product that is purpose-built and offers better build quality, infrastructure, features and more floors, giving rise to the requirement for Grade A warehouses.

Key factors driving the demand for Grade A in-city warehouses:

- ① **Superior build quality and compliance:** Grade A in-city warehouses are typically reinforced cement concrete (RCC) structures with a superior build quality that prevents fires, leakages, moisture, etc., to help limit damage to goods. Further, since they are built from the ground up, developers have the flexibility to build more floors to maximize returns. These warehouses also comply with all statutory requirements and have tight security. This enables storage of higher value products.
- ② **Better infrastructure and features offered:** Grade A products offer modular floor plans, technology integration, advanced heating, ventilation and air-conditioning (HVAC) systems and appropriate equipment for loading, unloading and moving goods. As a result, they enable more efficient operations and can help increase order fulfilment. Companies have indicated that they are willing to pay a premium for such warehouses, especially those built by nationally recognized developers.
- ③ **Poor quality of alternatives:** The existing Grade B inventory is largely single storied, has a poor build quality which is prone to damage and offers basic infrastructure and amenities. Furthermore, these units have limited security, are poorly maintained and are often operated without the requisite regulatory and safety compliance certificates like GST registration, fire safety NOC, land use approvals, building permits and traffic-related approvals.
- ④ **Unit economics:** Although Grade A products have a rental premium of ~30–40 percent vs. Grade B warehouses, they enable storage of higher Average Order Value (AOV) products and facilitate higher order fulfilment, which offsets the rental premium, resulting in a similar margin profile for companies.

Key challenges for in-city warehousing faced by developers:

First-mover infrastructure developers in the country have faced the following issues with their in-city projects:



Location selection: Finding the ideal location for an in-city warehouse is complicated, as companies would need to identify a location in serviceable proximity to the optimal cluster of 8–10 pin codes that would fulfil the demand requirements for their product or service, as well as offer suitable civic infrastructure to enable smooth transportation of goods. Further, availability of freehold land in urban areas is limited and hence companies will need to find alternative land (e.g., redevelopment or National Company Law Tribunal (NCLT) land) and clear it for their use.



Product specification: There is considerable uncertainty in terms of the ideal product configuration and specification that can maximize the number of use cases that can be served. Key concerns revolve around building height of multi-storey buildings up to five floors, number of boxes and average box size, facilities and equipment offered (e.g., cargo lifts, elevated ramps and dumbwaiter) and floor plan (modular vs. non-modular).



Rental pricing: There is limited knowledge and insufficient benchmarks on pricing this product. Rental rates need to factor the product grade, facilities, amenities and equipment offered, rates offered by competition and the willingness of potential tenants to pay, as well as ensure a high return on investment (ROI) for the developer. Moreover, the rates need to offer a value proposition for buyers to attract tenants. (E.g., for a 4,000 sq. ft. box at a rent of INR 110 per sq. ft./month, companies will need to fulfil 1,000–1,200 orders at an AOV of about 500 per order to break even.)



Capex financing: Financial institutions have a limited understanding of this product, given that the concept is at a nascent stage in India, and hence may assign a higher risk during underwriting, which can impact project's internal rate of returns (IRR).. However, it may be possible for nationally recognized developers to leverage their brand equity to negotiate better terms.



Regulatory compliance: Existing land-use policies impose restrictions on the nature and share of commercial, industrial and logistics activities that can be carried out on land parcels, which can complicate the tenant mix and process of filling boxes.



Ability to handle a high number and variety of tenants: Conventional warehouses can accommodate 5–6 tenants on average. However, in-city warehouses may need to accommodate up to 30 tenants to fill all their boxes. This is likely to expand administrative tasks (such as forming rental agreements) and complicate daily operations since tenants from different industries have different requirements related to box size, tenant improvements, equipment and facilities. Further, tenants from a certain industry may not want to co-locate with tenants from other industries due to risks such as contamination, odours and fire hazards (e.g., cloud kitchens and laboratories).



Lack of managerial know-how: There is limited availability of professionals with relevant experience in in-city warehousing. Furthermore, the management team would need to have experience in relevant industries beyond the traditional industries of third-party logistics (3PL), retail and fast moving consumer goods (FMCG) towards new-age businesses of e-commerce and quick commerce. They will also need a well-established local network to understand prevailing rental rates and demand from potential tenants. This will be in addition to financial, legal and operational experience and will, hence, require a considerable ramp-up period and investment in training.

How is the location for an in-city warehouse selected?

Selection of the location of an in-city warehouse is of utmost importance as it dictates access to customers, tenant economics and land rates, among others. The ideal location should enable companies to fulfil more than 1,200 orders (at an AOV of ~INR 500) per day over the following two to three years and be in proximity to quality roads that enable delivery partners to cover larger distances over a 15-minute to four-hour period. However, there is substantial complexity in selecting such locations due to the number of serviceable pin codes and market clusters in key cities.



Mumbai:
~145 pin codes
(30–40 micro-markets
per 5–10 pin codes)



Delhi NCR:
~430 pin codes
(55–65 micro-markets
per 5–10 pin codes)



Bangalore:
~220 pin codes
(40–45 micro-markets
per 5–10 pin codes)

Accordingly, multiple considerations that impact the location selection for an in-city warehouse must be evaluated for each pin code or micro-market cluster. Some of these key factors include:

Population density and demographics in the catchment area: Proximity to high-density residential and commercial areas comprising SEC (socioeconomic classification) A/B population with a high propensity for e-commerce purchases is preferred.

Current and potential demand for product or service offered: There must be sufficient current demand for the product or service that the player offers, with a potential to grow in the target catchment area.

Civic infrastructure and access to main roads and highways: The location must be in close proximity to and have access to main roads and highways via well-paved service roads that can accommodate all vehicle types to avoid congestion. This will help reduce the number of turns to be made on the delivery route and enable faster rider speeds.

Land classification: The land must be fully commissioned with the appropriate end-use classification and all compliances and statutory norms in place.

Illustrative location for an in-city warehouse



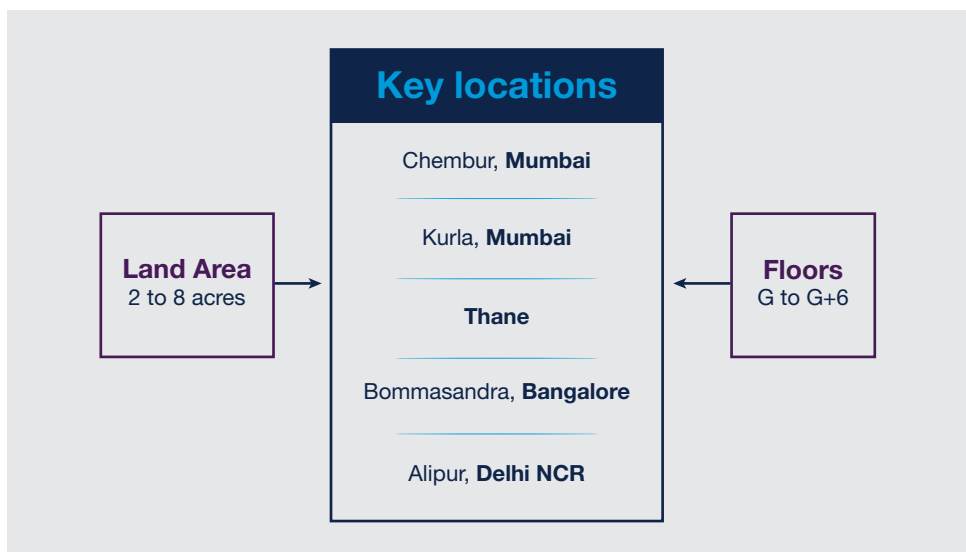
Legend

	Target Site
	Mall / Shopping Complex
	Commercial / Office Space
	State Highway
	Major Arterial Road
	High Population Density Areas
	Serviceable Radius

End User Industry	Service Radius
Quick Commerce	1-2 Kms
Online Meat	2-3 Kms
E - Pharmacy	4-6 Kms
Slot- based delivery	4-6 Kms

Examples of in-city warehouses in India

Early movers in the space in India with Grade A in-city warehousing include:



Source: A&M data and analysis

Disclaimer: Data are A&M's estimates and calculations based on information collected during warehousing and logistics engagements.

Who uses in-city warehouses?

The existing use cases for in-city warehouses in India are primarily “dark stores” for the following industries:

End-user industry	Delivery timeline promise	Sub-industries included
Quick commerce	<20 minutes	Grocery/FMCG
Slot-based delivery	<4 hours	E-commerce
Online meat	<60 minutes	Food and beverages
E-pharmacies	<4 hours	Pharmaceuticals
Micro-fulfilment centres (MFCs)	Same or next day	E-commerce/3PLs
Couriers		Logistics companies
Retail storage		Apparel/Electronics, Retail/FMCG/Consumer durables
Electronics service centres		Consumer electronics
2W service centres		EV and ICE vehicles
Labs/Medical suppliers		Diagnostic/Pathology labs

Source: A&M data and analysis

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These use cases have some key characteristics:

Delivery time and radius: Enable servicing of a catchment area of up to seven kilometers with delivery timelines ranging from four hours to next day delivery in line with the tenant's value proposition.

Floor preference flexibility: Given the shorter delivery timeline, companies are expected to be more willing to take up higher floors or basement spaces. Moreover, higher floors typically lease at a 15–20 percent discount to ground floor spaces. The higher the floor, the higher the discount which is more attractive from a bottom-line perspective.

Infrastructure requirements: Specialised tenants like labs and medical suppliers require additional infrastructure and services like a temperature control unit, separate bio-disposable system and separate ventilation. Other industries may need infrastructure like elevators, loading bays, pulleys, conveyor belts (medium frame conveyors or retail storage) and parking spaces (2W service centres).

Typical area leased: Companies are likely to take up spaces with usable area ranging from 5,000–15,000 sq. ft.

Complexities of operating an in-city warehouse



Tenant management and mix optimization:

- Managing diverse tenant profiles, including e-commerce logistic companies, quick commerce companies, and hybrid retail storage units
- Allocating tenants across multi-story property based on factors like rent capacity, delivery time commitments, and compliance with local regulations
- Balancing the tenant mix across various end-use industries like dark store formats, cloud kitchens, service centers, MFCs, and couriers



Time and motion analysis:

- Conducting time and motion analysis to optimize movements of different vehicle form factors, from bikes to large trucks
- Providing necessary infrastructure like parking, docks, ramps, and road width to facilitate smooth vehicular movements
- Ensuring efficient use of space and resources through optimization techniques
- Floor space design, movement of goods and placement of racks within a warehouse is an important element to drive efficiency and higher productivity



Value-added services:

- Incorporating sustainable practices such as energy-efficient lighting, waste management, and green transportation
- Offering value-added services such as charging infrastructure for EV vehicles to support sustainability initiatives
- Implementing parking management solutions to maximize space utilization
- Enhancing security with gate-in gate-out systems and surveillance technologies
- Managing internal facility management processes effectively to ensure smooth operations



Infrastructure development:

- Developing internal service corridors and external service passages/platforms for efficient movement of goods and personnel
- Ensuring connectivity and accessibility by conducting road traffic assessments and evaluating connectivity options in order to meet delivery commitments within promised time frames



Technology integration:

- Integrating IoT (Internet of Things) devices for real-time monitoring of warehouse operations and vehicle movements
- Utilizing data analytics to optimize warehouse layout, inventory placement, and resource allocation



Regulatory compliance:

- Adapting to regional regulations, such as restrictions on commercial activity in certain states like Maharashtra
- Staying compliant with local regulations regarding zoning, building codes, and environmental standards
- Adapting operations to comply with evolving regulations, such as those related to labor practices and safety standards.

By addressing these complexities comprehensively and systematically, operators can enhance the efficiency, resilience, and sustainability of in-city warehouse operations.

The way forward

The escalating consumption trends in metros and tier-1 cities, coupled with an increasing demand for convenience, make in-city warehouses an imperative for the future, demanding attention from infrastructure and service providers.

To ensure success, developers must zero in on three critical aspects: strategic project location, precise project specifications and robust financial returns. This necessitates a meticulous examination of supply-demand dynamics in the location, a comprehensive understanding of key tenant profiles and an acknowledgment of their requirements for project specifications, along with a willingness to pay a premium for Grade A infrastructure.

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