

Opportunities on many fronts: The rise of Indian industrial and logistics

While Western real estate markets have faced challenges in recent years due to a number of factors – notably rapid interest rate rises post-pandemic and changing use patterns caused by remote working – this is far from being a general rule across the industry globally. As India's industrial and logistics sector shows, not all sectors and regions are facing these issues, and in fact, many markets are thriving, especially those where leverage was not the main driver of value. Investors should continue to closely monitor the global real estate landscape and home in on the markets going from strength to strength.

Our experience tells us the key to success in the current era lies in aligning thematic investment strategies with robust, secular demand trends; a deep, granular understanding of real estate markets; and a builder-operator mindset. This approach is proving particularly effective in Asia, a vast market that continues to be underinvested in and offers a diversity of opportunities.

As a leading global investor in sustainable infrastructure, Actis has identified four global themes it believes present lucrative growth opportunities in real estate: digitalisation, supply-chain transformation, health and wellness, and climate transition.

These key themes are underscored by secular demand trends, including demographic shifts (urbanisation and the densification of wealth in cities); real estate supply deficiencies (where current supply is not fit for purpose, affordable or sustainable enough to attract demand); and demand for yield (the growing volume of local institutional capital that is key to delivering exits). Taken together, these themes and demand trends are shaping the future of real estate.

This approach is focused on investing in the real estate serving the "new economy", which translates into the likes of data centres, industrial and logistics properties, and life sciences facilities.

Actis is pursuing this investment approach, but not just anywhere – in Asia. Asia is the largest continent in terms of population, geography and contribution to global growth, with diverse markets ripe with opportunities. The global themes driving the new economy and the secular trends underpinning them are particularly strong in the region, making it an attractive investment destination.

Unlike many developed markets, Asian growth markets have not relied on abundant or cheap leverage as a dominant driver of returns, which has meant greater resilience through economic cycles. Additionally, Asia has been far less affected by remote working and the challenges this has caused for property markets and the liveliness of cities.

Asia also provides geographic and economic-cycle diversification. In more mature markets, there are opportunities for repricing due to higher interest rates and reduced liquidity, for example, while it is all about the continuation of economic dynamism in Asia's growth markets.

Looking towards India

India's industrial and logistics real estate sector is a case in point. India is already the world's fifth-largest consumer market and is projected to become the third-largest by 2027. Indeed, consumption is expected to more than double by 2031, surging to US\$5.0 from US\$2.2 trillion in 2023.¹

And while the country has lagged in manufacturing growth compared with many of its Asian peers, that is set to change. With global corporations adopting a "China-plus-one" strategy to de-risk business operations and supply chains, India finds itself among a group of Asian countries benefitting from this realignment and diversification of global supply chains. A great example of this is the Apple iPhone, which has rapidly expanded its production in the country, with close to 15 percent of global iPhone production coming from India in 2023, and industry analysts projecting this share to rise to a range of 26 percent to 30 percent by 2027.²

While the acceleration of India's manufacturing and industrial sector has been driven by market forces, it has also been supported by strong, targeted government policy. Examples of such policies in action include the "Make in India" initiative; production-linked incentive schemes for manufacturers (US\$27 billion of incentives focused on 13 sectors to boost manufacturing); the National Logistics Policy; infrastructure status for the logistics sector; and the rationalisation of tax rates, with a corporate tax rate of 17 percent for new manufacturing – the lowest among Asian peers. Taking a wider perspective, the government's focus on building out power infrastructure, as well as transportation networks such as road and rail, has also assisted the development of a strong manufacturing base.

Just as India's industrial sector is benefitting from numerous positive tailwinds, the same can be said for its logistics sector. The country has the second-largest internet user base globally but currently has low levels of ecommerce penetration, with major growth headroom, and the Indian ecommerce market is set to reach US\$173 billion by 2028, growing at a CAGR of approximately 24 percent.³

This equates to more demand for logistics and storage space as ecommerce players tend to take up roughly three times the warehousing space of traditional brick and mortar retail for each billion dollar of goods sold.⁴

Taken together, this helps further fuel India's industrial and logistics sector, but there is a dearth of quality real estate supply. The majority of the country's existing stock is of poor quality and at risk of obsolescence within the next decade. In this context of rapid growth, including from large multinational corporations increasing their operations in India, tenant preferences are evolving.

Tenants are increasingly demanding bigger, better-quality facilities to maximise operational efficiency; enhance regulatory compliance; and create more sustainable, safe and secure operations. Grade A spaces typically have a 50 percent higher floor-load capacity and 40 percent higher operational efficiency, safety and security than obsolete grade B/C facilities.⁵ The result is an overall reduced occupancy cost as the price-point of grade A real estate is more than compensated for by greater revenues enabled through higher volume capacity, greater efficiency and reduced waste.

Grade A occupied stock grew at a CAGR of 25 percent from 2018 to 2023, and this growth is set to continue. The same trends have also resulted in a gradual reduction in the grade A vacancy

rates in India, which stood at just 5 percent as of 2023, compared with 9 percent in 2018. The sector is also showing signs of rental growth, with rents for grade A properties growing at a CAGR of approximately 6 percent between 2021 and 2023.⁶

Given these dynamics, Actis believes there is an opportunity to fill the gap created by the fundamental lack of quality grade A industrial and logistics real estate stock in the country, the supply of which is not keeping pace with demand.

Delivering on this opportunity through Ample Parks

One of the ways Actis is looking to capitalise on this opportunity in industrial and warehousing real estate assets suitable for the expansion of the new economy in India is through Ample Parks.

Ample Parks is an Indian industrial and logistics real estate developer and operator set up as a joint venture between Actis and Mahindra Lifespaces, with Actis holding a majority stake of the joint venture and Mahindra Lifespaces owning a significant minority stake.

Mahindra Lifespaces is the real estate and infrastructure development arm of the Mahindra Group, which is one of the top conglomerates in India with a presence across 11 sectors and 22 industries, including automotive, logistics, real estate, industrial township development, hospitality and financial services. Ample Parks will benefit from synergies relating to land access and acquisition (including access to land parcels owned by Mahindra Group), tenant demand (through relationships in the logistics and manufacturing verticals), financing (thanks to strong connections with financial institutions) and the sharing of insights.

We believe these synergies will offer strategic advantages against competitors in a sector where operating capability is scarce and will be further enhanced thanks to an experienced management team that has networks with landowners, aggregators and intermediaries operating in the sector. The sustainability expertise both Actis and Mahindra Group have should also further enhance the platform's competitiveness, with Ample Parks making use of smart design and planning to incorporate energy-saving equipment and materials with the aim to reduce costs while enhancing environmental impact. Likewise, the platform will benefit from both businesses' in-house renewable-energy expertise.

Ample Parks has the ambition to acquire and develop 1.5 million square metres of greenfield and brownfield sites in key markets across India in the coming years, creating a platform we believe will become a leading industrial and logistics real estate solutions provider to global and local corporations.

In August 2024, the platform completed its first acquisition, a prime 70-acre industrial land parcel within Mahindra World City, Chennai, to develop an integrated industrial and logistics park with institutional-grade buildings. The project will seek to attract top-tier industrial occupiers, allowing them to benefit from Mahindra World City's infrastructure, accessibility and skilled manpower availability. It will be strategically located in a thriving industrial township, with excellent road, rail and port connectivity, as well as support and social infrastructure.

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New opportunities in a truly vast market

With India's already sizeable economy continuing to expand at an impressive rate, new sectors are coming to the fore. We believe the industrial and logistics real estate sector is critical to supporting the new economy and represents an excellent opportunity for investment and future growth. There is deep and growing demand for grade A industrial and warehousing space in India on account of rising consumption; growth in ecommerce; realignment of global supply chains; targeted government policy support; and increasing preference for large, organised and compliant spaces. We believe the sector presents a great opportunity to fill the gap created by the significant supply-demand imbalance, given the lack of high-quality, grade A facilities and the rising demand for such property.

Based on Actis' experience, we believe this property sector also provides attractive exit opportunities, as a large number of international institutional investors and a growing number of domestic investors are competing to get exposure to income-generating assets in the sector. In a context of depleting land banks and increasing competition for existing land parcels, the management team's strong relationships and synergies with the Mahindra Group, the Ample Parks platform illustrates how Actis believes it is gearing up to succeed in this space.

We believe the future is bright for India's industrial and logistics sector, and for those who choose to back it.

Notes: ¹ S&P Global, Global Credit Outlook, 2024; JLL Research; How India Shops Online by Bain & Flipkart; BMI Forecast; Industry Research; ² https://www.business-standard.com/budget/news/14-iphones-made-in-india-in-fy24-electronics-export-rank-up-eco-survey-124072200737_1.html; <https://www.moneycontrol.com/news/business/apple-aims-at-32-of-iphones-global-production-from-india-by-2027-report-12863518.html>; ³ JLL Research; How India Shops Online by Bain & Flipkart; S&P Global; BMI Forecast; Prologis, Industry Research; ⁴ [https://www.prologis.com/insights/global-insights-research/covid-19-special-report-6-accelerated-retail-evolution-could#:~:text=E%2Dcommerce%20requires%20more%20than,%2Dat%2DHome%20Economy%20phase](https://www.prologis.com/insights/global-insights-research/covid-19-special-report-6-accelerated-retail-evolution-could#:~:text=E%2Dcommerce%20requires%20more%20than,%2Dat%2DHome%20Economy%20phase;); ⁵ JLL Research, How India Shops Online by Bain & Flipkart; Avendus Research; Internet and Mobile Association of India (IAMAI); Industry Research; ⁶ JLL, Exploring India's thriving logistics and warehouse landscape

CONTRIBUTORS AND COMPANY OVERVIEW



Raghendra Chandak
Director, Real Estate
Actis



Brian Chinappi
Partner and Head
of Real Estate
Actis

Actis is a leading global investor in sustainable infrastructure, investing in structural themes that aim to support long-term, equitable growth in defensive, critical infrastructure across the energy transition, digitalisation and supply-chain transformation.

Actis believes the firm's decades of global experience, operational know-how and strong culture allow it to create global sustainability leaders at scale and deliver competitive returns for investors. Actis is one of the longest-standing energy investors globally and a signatory to the Principles for Responsible Investment (PRI), an investor initiative supported by the United Nations.

You can learn more about Actis at www.act.is, or by contacting Sarah Douglas, director of communications and marketing at sdouglas@act.is.

