

New Tax Regime May Boost Realty PEs' Interest in Warehouses & Logistic Parks

Kailash Babar & Sobia Khan

Mumbai | Bengaluru: Real estate private equity firms' interest in warehousing and logistics park space is expected to increase with the proposed rollout of Goods & Services Tax. Given the current complicated tax structure, the logistics decision and choice of setting up of inventory and distribution centres are based on tax rates rather than operational efficiency.

With GST implemented, these decisions will purely be based on operational efficiency and help boost warehousing at cheaper locations. Private equity firms are sensing better returns with lower real estate cost for setting up such warehouses and logistic parks.

"The biggest beneficiary of GST will be the logistic sector that will undergo a huge change. It will bring more efficiency in the real estate sector and pave the way for setting up of large logistic parks. One-country one-tax model will attract lot of invest-

ments from foreign private equity investors who invest in logistics," said Rajeiv Bairathi, head-capital markets at Knight Frank India.

Various taxes and disparity in levies across states were holding back seamless distribution of goods apart from the absence of a tax regime that allowed set-off of tax paid on availing logistics and other related supply chain services.

"Warehouse parks can now be developed in tax-neutral environment and their setting up will be governed by land costs and connectivity only. We expect more participation of PE firms/NRIs towards this sector. PE fund houses like ours invested close to ₹300 crores from their REIT-like funds to procure large format Logistics Parks and will actively look at more such opportunities in future," said Rubi Arya, vice chairman, Milestone Capital Advisors.

Arya reckons that with the rollout of GST, this key impediment to the development of the warehousing industry will be resolved.



WHY WAREHOUSING



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With GST in place, the logistics and supply chain expense will be regarded as "value add" and the manufacturers will get tax credit for such services availed.

Developers of logistics and industrial parks are of the view that rollout of GST will lead to more consolidation in the warehousing sector that will provide the ideal platform for the

emergence of large scale nationwide players. An increase in consumption demand is expected, which will indeed boost economic growth.

"With the onset of GST, there's likely to be a spurt in demand for e-commerce and the industry stalwarts will be carefully planning their network. Modern warehousing facilities that allow for consolidation of distribution hubs will be a vital component in making this a reality. Supply chain efficiency is going to become the single biggest differentiator in the e-commerce space as organizations strive to make 'same-day delivery' a cost effective reality. The GST is going to be a game changer for the fast-growing Indian economy," said Anshul Singhal, CEO, Embassy Industrial Parks

Private equity investors are also excited as the warehousing sector will gain with the GST rollout followed by increased spending on infrastructure and road networks, the Make in India initiative, and other important reforms that have attracted investors' interest towards this sector.