Shopping Centre News

DECEMBER-JANUARY 2012 | DEVELOPING RETAIL IN INDIA | VOL.4 NO.6 ₹100

MALL CLUSTERS

DESTINATION OR COMPETITION?

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rising horizons
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After a long wait, the country's retail industry finally has the government go ahead on 51 per cent FDI in multi-brand retail and 100 per cent in single brand retail. No doubt this has opened new doors for international brands looking to enter the Indian market, but this also means a broader and attractive tenant pool for mall developers looking to offer the best of choices to their customers.

Rising competition kicks in the struggle for survival of the fittest. And malls are no different – the old ones have to evolve themselves in the face of the new and often bigger centres coming up in their vicinity and the new ones too have to stand the test of the market expectations.

Another aspect of this competition is seen in context of 'mall clusters', which is discussed in our cover story. Striving for a greater share of the market, malls have to be at their best to stand out among all other shopping options becoming available for the target customers.

For malls coming up in clusters, the challenge is not only to attract and retain customers but also to be able to find profitable retailers to take up spaces in these centres. On the other hand, retailers too find themselves gambling to an extent in making their choices from a number of malls coming up in the same geographical area as then business forecasting comes into play in a much more complex way.

With crores at stake in the business of shopping centre development, one cannot really afford to make mistakes. While one may be driven to focus on the competition and ensure to be one up on everyone else around, a better strategy is to look inwards and identify ones own strengths and create a truly powerful USP. There's no end to competition as it is unpredictable and comes from all directions in all forms, so that is something no one can possibly control. But can't one succeed by simply striving to be at one's best?

By now our industry has evolved to a level where the recipe of success is known to all those who are serious about the business; now it's just about how you add the extra flavour to create your own brand. Shopping centre experts must be consulted every step of the way to ensure the vision becomes a reality. All it takes then is to match the best in construction quality, customer friendly design, relevant and exciting mix of products and services, and above all to be honest with both your internal as well as the external customers – because finally, it's all about forging long-term relationships. And the one who has unwavering support from his tenants and votes from loyal customers is the winner.

Competition may be useful in raising the standards of service and offerings up to a certain point, but eventually a sense of cooperation to be able to co-exist in a market is what is the key to long term success for the shopping centre industry.

Amitabh Taneja

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INDIA 21st MOST EXPENSIVE RETAIL LOCATION IN THE WORLD

By **Cushman & Wakefield**

- **Khan Market in New Delhi, most expensive retail location in India.**
- **100 ft. Road in Bangalore one of the fastest growing retail location in Asia.**

India maintained its position as the 21st most expensive retail destination (among main street and malls) in the world, according to the recently released report by global real estate advisors Cushman & Wakefield. According to the C&W report – Main streets across the world 2011 – Khan Market in New Delhi, saw a growth of 9.6 per cent in per square feet rental values over the previous year and helped India maintain its position on global ranking at 21. New York's 5th Avenue retained its top spot as the most expensive location, followed by Causeway in Hong Kong (2nd), Ginza Tokyo (3rd), Pitt Street Mall, Sydney (4th) and Champs Elysees, Paris (5th).

Jaideep Wahi, director – retail services, India, commented, "Retailer expansion in India is a result of a combination of strong economic growth driven primarily by internal consumption and quality retail supply being provided in major cities across India. Growth in the luxury sector has been a rising trend with the market growing at a rate of 13 per cent. Both international and Indian brands regard India as an expanding luxury market, which could become a significant part of their portfolio going forward. 2012 will provide a conducive environment for further retail expansion in India, with continued economic growth and new shopping centre supply in the top ten cities."

Khan Market in New Delhi recorded the highest rental values for the year in India at approximately INR 1,199/sq ft/ month. The location saw a growth of over nine per cent in rental values over the previous year. This main-street has always been India's most prime retail location, due to the advantage of being situated in the midst of the premium most residential boulevard of the capital city. With many major international and national retail brands being present in Khan Market, and little vacancy and consistent demand, values have been rising high.

The highest increase in rental values was recorded by New Delhi's Greater Kailash – I which saw a

The most expensive high street locations across India - 2011

Main Streets			
Location	City	Rental Values In Inr/ Sq.Ft./ Mnth (June 2011)	% Age Increase In Rental Values Over 1 Yr
Greater Kailash I	New Delhi	550	22.20%
100 Ft. Road Indiranagar	Bangalore	152	21.60%
J.M. Road	Pune	300	20.00%
M.G. Road	Pune	300	20.00%
Commerical Street	Bangalore	320	18.50%
Jubilee Hills Road No. 36	Hyderabad	140	16.70%
Colaba Causeway	Mumbai	400	11.10%
Brigade Road	Bangalore	440	10.00%
Khan Market	New Delhi	1,200	9.10%
Connaught Place	New Delhi	650	8.30%
Kemps Corner, South Mumbai	Mumbai	410	7.90%
C.G.Road	Ahmedabad	140	7.70%
Fort/Fountain, South Mumbai	Mumbai	350	6.10%
Park Street	Kolkata	260	6.10%
Linking Road,Western Suburban	Mumbai	685	3.00%
South Extension	New Delhi	550	0.00%
Khader Nawaz Khan Road	Chennai	150	0.00%

Source: Cushman & Wakefield Research

- Prime retail rents increased in just under two-thirds (62 per cent) of countries surveyed for report
- Asia-Pacific and Latin America regions lead global growth in retail markets
- New York's Fifth Avenue remains the world's most expensive shopping street

Fifth Avenue, as a symbol of wealthy New York and one of the most expensive streets in the world, with Empire State Building

The most expensive shopping centre locations across India - 2011			
Shopping Centre (Malls)			
Location	City	Rental Values In Inr/ Sq.Ft./ Mnth (June 2011)	% Age Increase In Rental Values Over 1 Yr
Elgin Road (Shopping Centre)	Kolkata	533	18.40%
Lower Parel (Shopping Centre)	Mumbai	480	0.00%
South Delhi (Shopping Centre)	New Delhi	450	4.60%
Central (Shopping Centre)	Chennai	265	0.00%
Central (Shopping Centre)	Chennai	265	0.00%
Banjara Hills Road No. 1 (Shopping Centre)	Hyderabad	240	0.00%
Vastrapur (Shopping Centre)	Ahmedabad	78	4.00%
Source: Cushman & Wakefield Research			

100 Feet Road, Bangalore

rise of 22 per cent in rental values over the previous year. Much like Khan Market, this location also is surrounded by premium residential location with a very large concentration of HNIs, making it a sought after location for brands entering or expanding in New Delhi. Bangalore's 100 Ft Road, saw the second highest with a growth of 21.6 per cent in rental values while Pune's J.M. Road and M.G. Road recorded growths of 20 per cent in rental values over 2010.

Amongst the shopping centre destinations, Kolkata's Elgin Road was the most expensive location which saw a growth of over 18 per cent in rental values in the last one year. The location, being the centre of Kolkata city, enjoys the advantage of having extremely limited mall space while attracting high demand from international and national brands. Mumbai's Lower Parel Location emerged as the second most expensive shopping centre location however; the location has not seen any changes in rental values over the last year. Lower Parel is the only shopping centre location in the southern part of Mumbai thus commands a premium in that respect and also enjoys buoyant demand for space. The rental values have remained stable over the past one year due to low vacancy and lack of any major transactions in this location.

Says Jaideep Wahi, "Shopping Centres have on the whole have maintained values over the previous year which is largely in a bid to ensure continued interest from retailers to take up space. In the past the experience has been unfavourable when values have increased rapidly given that retailers are conscious of their fixed liabilities. Given the fact that there is limited main street space, most retailers are going to look towards malls for future expansion which gives this segment an excellent opportunity of growth."

He further adds, " Currently, the mall space dynamics are very fluid and volatile going to heavy experimentation in terms of leasing strategies, space management, services provided etc. which is the reason, why developers are not opened to changing base rents lest

MALL CLUSTERS

Destination or Competition?

By **Priti Payal**

A rapid shift in the mall culture can be observed off lately with a number of malls coming up at the same catchment, a term generally explained as Mall Clustering. Mall clustering situation in India has got a mixed reaction where some industry experts believe that it can be nurtured as a 'Destination' while some feel that it is nothing more than uncalled for 'Competition'. So what will decide the future of the malls in a cluster?

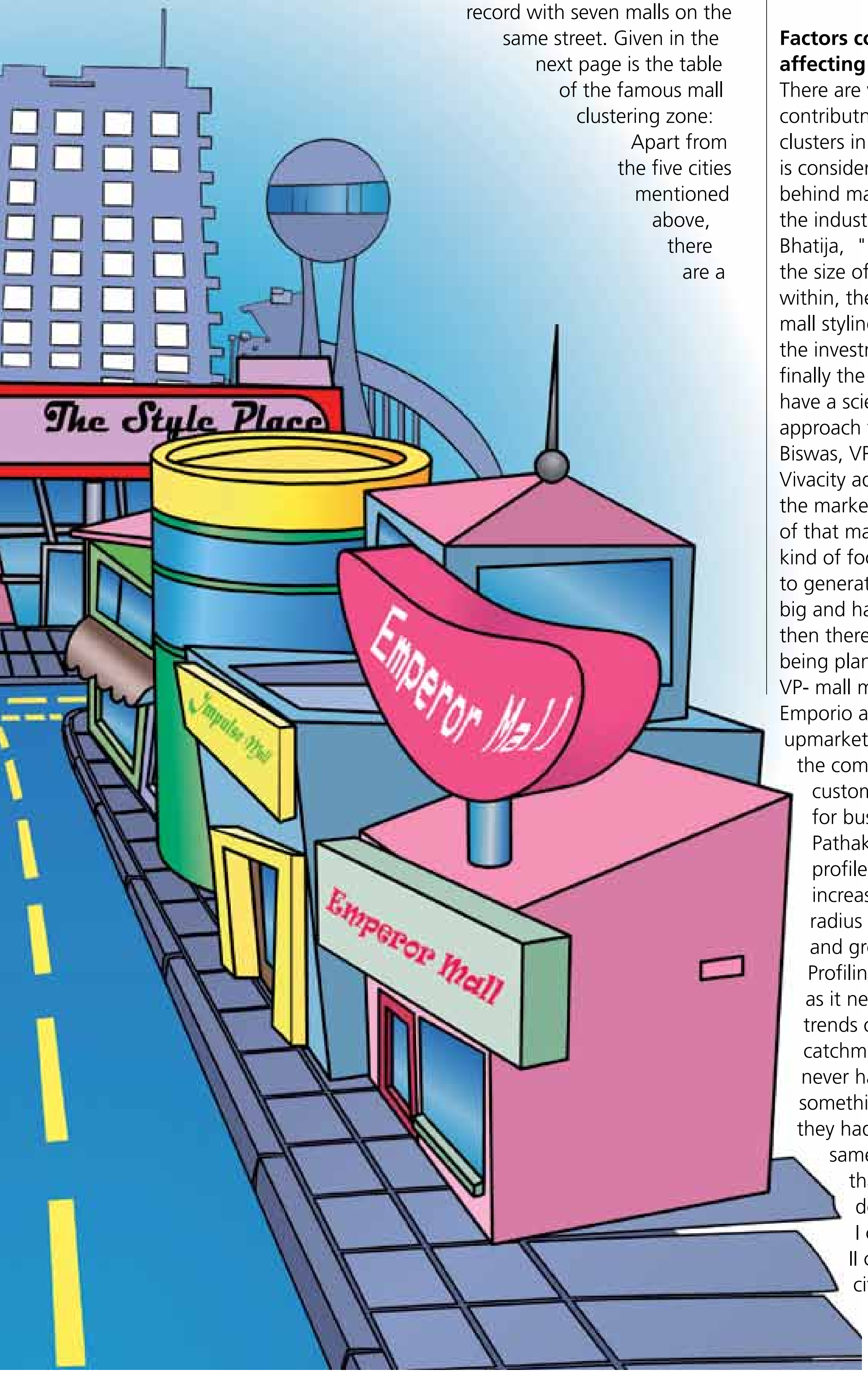
Mall clustering has become a common phenomenon and is generally defined as a situation where a number of shopping centres come up in the same catchment. It is not very different from "hotel clustering" or "retail clustering" which again is a common phenomenon across the world. According to Pushpa Bector, vice president & mall head, DLF Promenade, "When there are 2-3 malls or more in one area giving rise to a larger magnet for shopping, mall clusters become a reality. It depicts the new face of retail in India."

While some believe that mall clustering reflects the growing economy of India, some believe it to be sheer ego of the developers and unhealthy competition. Rajiv Malla, centre director, Phoenix Marketcity (Pune) says, "Mall clustering indicates that a city has evolved over a period of time and the retail market has matured due to increase in disposable income in the hands of the customers." Bector too agreed saying that new-age consumer enjoys the mall culture and appreciates good options. However Kishore Bhatija, CEO, Inorbit Malls feels, "Mall clustering leads to heightened competition amongst developers and only the strongest survive eventually. This would be an economic waste unless there is a sufficient catchment and consumption to support the malls." Amit Bagaria, chairman, Asipac says that the most important reason behind mall cluster and heightened competition is developers' ego, with each developer assuming that his mall will do better than the other – and this is the reason for the development of most mall clusters in India, even in those places where land availability had some minor impact. Shashank Pathak, director-marketing & leasing, Plaza Centers, India feels that mall clustering is by accident, not by design. "The situation arises when all the developers have the same view of the potential area being evaluated. With reports of the potential of a certain catchments in the city being put ahead of other areas, clustering happens due to a limited vision of future growth of the city. The growing pattern of every city is more or less in a particular direction and every potential developer looks at giving the best mixed-use development project targeting a specific segment – which usually is a common knowledge in the area which leads to clustering."

High profile mall cluster zone

In India mall clustering has become very visible now. The trend started in Gurgaon but failed to survive for long. However, there are several other areas which have become the topic of discussion because of the presence of too many high profile malls at the same place. Saket & Vasant Kunj in Delhi, Thane & Vashi in Mumbai, Whitefield & Hebbal in Bangalore are some of the best known mall cluster zones. Recently, Nagar Road in Pune has created a kind of a record with seven malls on the same street. Given in the next page is the table of the famous mall clustering zone:

Apart from the five cities mentioned above, there are a number of other places quickly catching up with the trend including Noida, Bhandup-Mulund & Malad West in Mumbai, Hadapsar area of Pune and the SG Road – Satellite – Vastrapur area of Ahmedabad. Apart from the top 10 cities, it is also happening in many tier-II and tier-III cities.



Factors contributing to and affecting mall cluster

There are various factors contributng to and affecting mall clusters in India. Catchment profile is considered to be the major reason behind mall clustering by most of the industry experts. According to Bhatija, "Catchment profile decides the size of the mall, the brands within, the positioning of the mall, mall styling / theme and therefore the investment into the mall and finally the footfalls. At Inorbit, we have a scientific research driven approach to mall feasibility." JP Biswas, VP- marketing & leasing, Vivacity adds, "The total size of the market and the composition of that market gives a sense of the kind of footfalls that a mall is likely to generate. If the catchment is big and has the money to spend then there is a case for more malls being planned." Dinaz Madhukar, VP- mall management, DLF Emporio agrees that being in an upmarket area definitely adds to the comfort and security of the customers besides being good for business. On the contrary, Pathak says, "Catchment profile is important but with increasing infrastructure, the radius of your catchment varies and grows from time to time. Profiling is a very subjective term as it never shows the buying trends or fashion quotient of the catchment – as the catchment never had the opportunity to buy something fashionable though they had all the money to buy the same." Malla also believes that the catchment profile does play a key role in tier I cities but in case of tier II cities, almost the whole city is the catchment. "For instance, in cities like Pune- even Baner and Aundh is our catchment but in cities like Mumbai & Delhi, its not applicable."

Second most important factor playing a vital role in a cluster is investment. According to Pathak, "Investment is related to the level of mall one plans to construct. It can be a cheap and no frills mall or a good mall with best of facilities for tenants and customers – the variation can be as high as 45-50 per cent above a normal box type format." Malla adds, "Good investment is required to create a beautiful mall structure and to have the wow effect, the infrastructure should be convenient for customers. It is also important to focus on minutest things to give an experience which may not be expensive but classy and customers become emotional about it." Biswas says that with the construction cost remaining more or less the same, the biggest factor that makes a mall project feasible is the land cost. If the cost of the project is high compared to the projected returns then one would not plan the project in the first place.

Availability of land is another big factor that drives mall developers towards or away from a particular catchment. There is no question of another mall if there is no land available. According to Bagaria, "In the case of land availability or zoning, it is the government or the city development authority that forces clustering. Vasant Kunj cluster of three malls (DLF Emporio, DLF Promenade and Ambience Mall) is a prime example of this sort of clustering. Another reason is availability of land parcels large enough to develop malls. The clustered developments in Ahmedabad, Pune & Hebbal in Bangalore are mainly because of this."

Footfall is also important but most of the developers feel that it is a very ambiguous term to define the success of a mall in the cluster or alone. According to Bhatija, "It makes sense when we look at the complete relationship between footfalls, conversion percentage of this footfall and what was the cash spending of the percentage converted. I saw a mall in South India, which used to have huge

Breaking the Retail Real Estate Archetypes

From a demand perspective it has been a great year, three times more than last year; but from the supply perspective 18 million sq ft that's going to be delivered this year, there's going to be six million sq ft (about 60 lakh sq ft) of supply that is going to exceed the demand. With that background the concluding session of the IRF 2011 had a panel of retailers and developers looking into some of the most sensitive issues facing the retail real estate industry in India. SCN brings a report of some of these points discussed during the session.

It's for the first time that we are seeing the demand move up to 12 million sq ft. It was 4 million sq ft in 2010, informed Anuj Puri, chairman & country head, JLL. "But the supply is 18 million sq ft, so you have an excess supply of six million sq ft. 64 per cent of this supply is coming largely in Delhi and Mumbai. Out of the 12 million sq ft which is going to be leased out, 4.7 million sq ft has already been leased out in the first half of this year."

Anchoring the session, Puri raised a very crucial point saying, "None of the developers who have bought land in the last four years and developed a mall are going to breakeven in the next seven years. That's their financials." So, how much should really a developer earn?

Considering that a developer puts in ₹100 crores into the business, what should be his expectation from that investment on a year to year basis?

According to RA Shah, director, Trent Retail Services, "Look at the 21 years of the life of the property. In the 21 years if a developer gets about 20 per cent return every year on an average, that's good." He added that property value goes up with time and retailers help safeguard the developer's property by occupying that space as tenants.

Bringing the developers view, Dharmesh Jain, chairman & MD, Nirmal Group said that given the basic minimum funding rate of 15 per cent, one has to aspire to get something beyond the funding rate. Logically, making 20 per cent is the bare minimum required to be viable. He added, "Either all of us as an industry have to say that we are happy moving out of the city centres and go beyond so that the rents are affordable but if we also want prime spaces in city centres or world-class centres, the rents are also coming straight with that situation."

Jain added, "Today environmental permission is taking 18 months; any permission today from the time you buy the land to actually getting permissions to construct is 18-24 months if you are an extremely good developer. And it is 24-30 months if you are a reasonably good developer. If we look at three year cycle between buying the land and starting the mall, that is ideal. Unfortunately today with the way permissions are in most metros, that is a problem area."

If you were to buy land today and construct a mall, when do you believe you'll be able to break even?

"Our model is a little different from most of the other developers. We generally don't buy land. Our model is joint development, so we had rather give away a share because when someone starts

Anuj Puri, chairman & country head, JLL

Ashwin Puri, Property Zone

Left to Right:
Kishore Bhatija, Pranay Sinha
Manish Kalani, Dharmesh Jain
S Raghunandan, Ashwin Puri
Deepak Marda, R A Shha
Sunil Biyani

computing the cost of land, you will never make money," said S Raghunandhan, CEO, Prestige Retail.

Assuming that they have to buy land, Raghunandhan said, "If you look at a reasonable piece of land, say half a million sq ft development, depending on the city, the ball park figure would be ₹400-450 crores between the construction cost and the land cost."

However, he stressed, "The issue is not how many years will it take, but the issue is that retail productivity is not enough for a developer to make money quickly; throughput is still not good. Apart from a few exceptions, by and large most retailers have miserable throughputs. This situation has to improve, then we look at five to seven years of horizon and hopefully make money, otherwise it just keeps extending."

Speaking of a retailer's expectation of a break-even horizon for a new retail store, Sunil Biyani, director, Future Group said, "The breakeven is anywhere between two years to three years." He emphasized the need for retailer-developer partnership to survive and grow together, find a middle path and move ahead on that. He added, "The issue is that we have a structure, nine-year lease and we renegotiate after that. I think we have to look at a much bigger horizon like 21 years and build the

Celebrating the stars, IRA 2011 honoured India's top retailers for their outstanding performance across multiple categories. The glittering ceremony concluded the two-day India Retail Forum (IRF) held in Mumbai

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