Shopping Centre News

DECEMBER 2013 - JANUARY 2014 DEVELOPING RETAIL IN INDIA VOL. 7 NO. 1 ₹100

SHOPPING CENTRE STRATEGIES WELCOMING INTERNATIONAL BRANDS IN INDIA

- Retail Real Estate: flashback 2013 & look ahead 2014
- Quintessentials of leasing
- Art of differentiation for malls
- What makes a successful shopping mall

Shopping Centre News

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EDITOR'S NOTE

editor-in-chief........amitabh taneja
editorial director........r s roy
publisher........s p taneja

issue editor in charge........shubhra saini (sr. correspondent)
sr. copy editor........shipra sehgal
contributing editor........zainab morbiwala
correspondent........roshna chandran
reporter........kanak prabha

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circulation
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production
general manager........manish kadam
sr. executive........ramesh gupta

support
general manager – administration........rajeev mehandru

ADVERTISING

BUSINESS HEAD

Anjali Sondhi, director
anjalisondhi@imagesgroup.in
Mob.: +91 9810204297

Waseem Ahmad, vice president
waseemahmad@imagesgroup.in
Mob.: +91 9833628852

DELHI:

Vineet Chadha, assoc. vice president (retail support group & indiaretailing)
vineetchadha@imagesgroup.in
Mob.: +91 9350897807

Mansi Chawla,
assoc. vice president (shopfit & design)
mansichawla@imagesgroup.in
Mob.: +91 9899900399

Sachin Khanna, manager
sachinkhanna@imagesgroup.in
Mob.: +91 9818818142

Naveen Chauhan, dy. manager
naveenchauhan@imagesgroup.in
Mob.: +91 9891390763

KOLKATA:

Piyali Oberoi, assoc. vice president & branch head
piyalioberoi@imagesgroup.in
Mob.: +91 9831171388

Rohan Narayan, asst. manager
rohannarayan@imagesgroup.in
Mob.: +91 9830961388

MUMBAI:

Bindu Pillai, sr. gen. manager
bindupillai@imagesgroup.in
Mob.: +91 9820324063

Nayan Shetty, sr. manager
nayanshetty@imagesgroup.in
Mob.: +91 9892769533

Chandan Singh, sr. exec.- sales
chandansingh@imagesgroup.in
Mob.: +91 9769653976

BENGALURU:

Suvir Jaggi, assoc. vice president & branch head
suvirjaggi@imagesgroup.in
Mob.: +91 9611127470

Mahim M Jannu, dy. manager
mahimjannu@imagesgroup.in
Mob.: +91 7829251189

AHMEDABAD:

Pankaj Vyas, manager
pankajvyas@imagesgroup.in
Mob.: +91 9909977088

LUDHIANA:

Hemant Gupta, associate
hemantgupta77@gmail.com
Mob.: +91 9814019745

Over the last decade or so, more and more fashion, lifestyle, foodservice, grocery and other speciality brands have either entered India or are aiming to do so. India's massive retail market is now developing fast as quality retail real estate spaces have spruced up across the nation, and this has largely been because of the international entrants. With the advent of international luxury retailers like LVMH, Armani, Chanel, Jimmy Choo, Fendi, Salvatore Ferragamo, Canali, we have also witnessed the culture of Luxury malls emerging in the country.

Malls like DLF Emporio in Delhi, Palladium in Mumbai and Bergamo Mall in Chennai all are examples of uber svelte luxury spaces specially created to cater the needs of such brands. We have also seen how malls like Select Citywalk in Delhi, GIP in Noida, DLF Promendade in Delhi, Express Avenue in Chennai, Inorbit and Infiniti Malls in Mumbai are swiftly moving towards catering to the needs of premium and bridge to luxury international brands like Tommy Hilfiger, Adidas, Skechers, Zara, Mango, Starbucks, McDonald's Costa Coffee, Pizza Hut, Dominos etc. So while today we do have many quality malls in the country but we still need many more. And with the entry of many other international brands in the country we will surely witness quality spaces also coming up.

In, this issue of Shopping Centre News, we have tried to study the role of international brands in evolving the modern retail in the country in detail. We are really hopeful that the year 2014 will bring many relaxing policies and a better economic environment with it. And that will make the entry of foreign brands easier in the country and which will in turn be herald a more prosperous era for the retail and retail real estate industry.

In fact from what I saw from my personal interactions with the international retail community at Mapic, which was held in mid November at Cannes, France. I firmly believe that sentiments are already back on track and international investors who will focus on a long term strategy based on consolidating sustainable growth have everything to gain in India.

Apart from our exhaustive cover story, we have also interviewed Mukesh Kumar, VP, Infiniti Mall, who talks about how they have marked a niche of their own by selecting the right brand mix and capturing the right market and target audience. We have also tried to encapsulate the essence of the recently launched Quest Mall in Kolkata. Anuj Puri, Chairman & Country Head, Jones Lang LaSalle India has penned down a special write-up for our readers on Indian Retail Real Estate - Looking back on 2013 and ahead at 2014. I, hope you enjoy reading the Dec-Jan issue of SCN.

With the advent of new year, I and my team will be extremely busy in our upcoming events. East India Retail Summit is taking place on 17-18 December'13 at ITC Sonar, Kolkata; India Fashion Forum- 17-18 January'14 at Bombay Exhibition Centre, Mumbai;Food and Grocery Forum India- 23-24 January'14 at Bombay Exhibition Centre, Mumbai and India Salon and Wellness Pro- 24-25 February'14 at Renaissance Hotel, Mumbai. I will like to invite you all to be a part of our events.Wish you all a very happy and prosperous new year in advance.

Amitabh Taneja

IMAGES MULTIMEDIA PVT. LTD.
DELHI: S 21, Okhla Industrial Area, Phase II, New Delhi 110020
Ph: +91-11-40525000, Fax: +91-11-40525001

MUMBAI: 1st Floor, Panchal Iron Works, Plot No. 111 / 3, Marol Co-Operative Industrial Estate, Marol, Andheri (East). Mumbai - 400059.
Ph: +91-22-28508070 / 71, Fax: +91-22-28508072

BENGALURU: 523, 7th Cross, 10th Main, (Jeevanbhima Nagar Main Road), HAL 3rd Stage, Bengaluru 560 075 Ph: +91-80-41255172/41750595/96, Fax: +91-80-41255182

KOLKATA: 30-B, Anil Roy Road, Ground Floor, Kolkata 700 029
Ph: + 91-33-40080480, Fax: +91-33-40080440

For subscription related queries, email to: subscription@imagesgroup.in
For feedback/editorial queries, email to: letter2editor@imagesgroup.in
visit us at www.imagesgroup.in

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e-mail: info@imagesretail.com. Visit us at www.imagesretail.com.

Shopping Centre News

DECEMBER 2013 - JANUARY 2014

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INDIAN RETAIL REAL ESTATE
LOOKING BACK ON 2013 AND AHEAD AT 2014

Year 2013 has once again highlighted that retailers cannot afford to ignore India. Nevertheless, obstacles to faster growth - such as unaffordable real estate rates, complex taxation and FDI policies, intense price competition from the unorganised sector and on-going economic slackness – continue to be challenges. Macroeconomic fundamentals are unlikely to change during the first half of year 2014. In the second half, sentiments will be driven by election results

BY ANUJ PURI

2013 – Generalised Pain, Selective Gain

Macroeconomic Scenario - *Economic Pain Reflected In Spending Restrain*

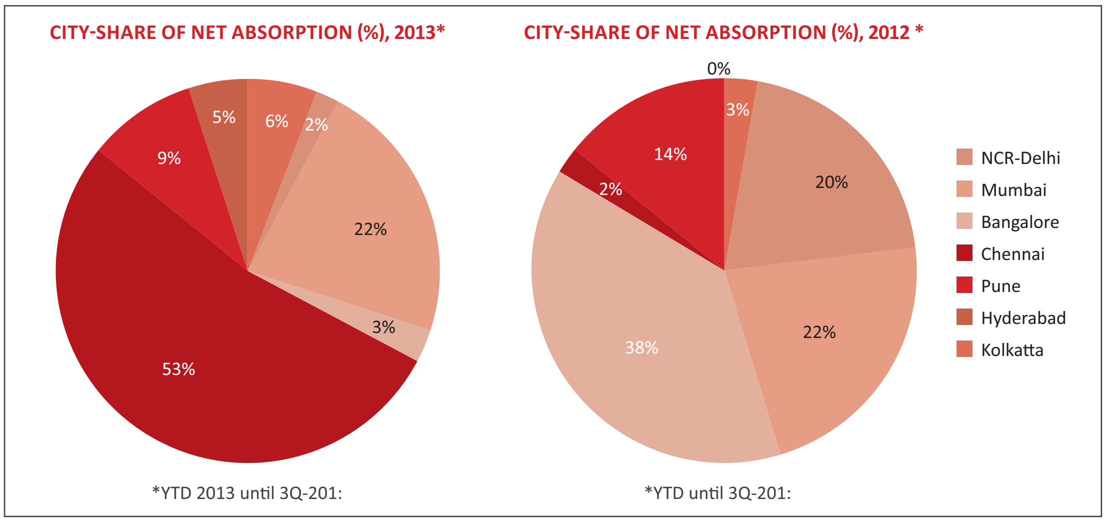
The GDP growth for the financial year 2012-13 stood at 5 percent y-o-y as against 8 percent average growth over the last five years until FY 2011-12.The first quarter of FY2013-14 provided no respite - growth fell further to 4.4 percent y-o-y.

Growth of the FIRE sector (Financial, Insurance, Real Estate &Services), which stood in double-digits over the last five years, came down to 8.5 percent during the previous financial year and currently remains at that level.

The poor economic environment took its toll on the confidence of domestic households. Growth in consumption spending, which stood on at an average of over 8 percent during the five-year period until FY2011-12, fell sharply to 3.9 percent y-o-y as of the last financial year (FY2013) and 1.6 percent during Q1-FY14. The growth of the retail sector, which forms part of the Trade, Hotels & Transport component of India's GDP, stood at 9.7 percent y-o-y on average during the five years until FY2011-12. Last year (FY2013) it fell to 6.4percent y-o-y. Q1-FY14 performance was even worse, recording growth of a mere 3.9 percent y-o-y.

Performance of Retailers - *Indian Consumers Moving Up The Value Chain?*

When economic growth and private consumption suffer, retailers are obviously impacted. For the 10 prominent national retailers listed on the Bombay Stock Exchange, quarterly net profits for the first two quarters (ending June '13 and September '13) of the current financial year reflected weakness. In addition to the economic slowdown, AT Kearney's GRDI report for 2013 also highlighted the difficulty that Indian retailers had to face during the last few quarters. The report states – 'High operating costs, low bargaining power with vendors, and heavy discounting to improve sales have affected profits and expansion plans. Real estate cost and space availability also remain important issues. '



*YTD 2013 until 3Q-201:

*YTD until 3Q-201:

However, a few retailers did exhibit marginal growtheven in these difficult times – these included Shoppers Stop, Trent Retail and Indian Terrain. We believe that these retailers benefited from their premium brand positioning, which gave them an edge over brands thatprimarily target the value-based segments.

This trend is further reflected in the performance of international retailers who have recently forayed into India. Brands such as Zara, Marks & Spencers, Benetton and Tommy Hilfiger posted a healthy jump in their year-on-year revenues, and therefore have ambitious expansion plans for India. These international players have bucked the general trend by offering stylish designs at prices that were reasonable to Indian consumers.These four global brands collectively achieved sales that equalled the apparel sales of established department store chains such as Shoppers Stop and Lifestyle International.

Regulatory Environment - *Policymakers Coming To Terms With Market Reality*

After several years of clamour and hesitation, the Indian Government fully openedup FDI investment in single-brand retailingtowardsmid-2012. Large single-brand retailers such as Roberto Cavalli, Christian Louboutin, Starbucks, Dunkin Donuts, Armani Junior, etc. entered in the subsequent months.IKEA, a large furniture chain, is also finalising its India entry strategies, with plans to invest around INR 10,500 crore.

Later during the same year, the Government also raised the FDI limit in the 'politically contentious'multi-brand retailing segmentfrom nil to 51 percent, albeit with certain pre-conditions. While many had believed that this move would incite international players such as Wal-Mart and Carrefour to accelerate their entries into the Indian market, none of those retailers have submitted their investment plans yet.

After analysing the FDI pre-conditions, global retailers voiced their concerns over some of them which they perceived as excessively rigid:

- Minimum USD 100 million investments
- Maximum 51 percent stake by foreign retailer
- 5-year window to achieve 30 percent sourcing from SME sector
- 50 percent of the FDI investment to be channelled into creating back-end infrastructure

These pre-conditions were perceived as too difficult to execute in tandem. For instance, the first two conditions cumulatively require the joint venturing partners to invest more than INR 1000 crore. Since food and apparel is the highest-selling segment, retailers would be inclined towards investing in it despite the high competition in this segment. Other retail segments may be too small to accommodate suchmagnitude of investment.

Realising that these pre-conditions created genuine difficulties in execution, the Indian Government announced measures to relax these normsin August 2013. Therefore, on the policy front, 2013 was a year of realisation and negotiation with foreign retailers.

Pan-India Retail Performance – *HigherAbsorption In Tier-II Cities*

In an otherwise somnolent market scenario, Chennai's performance was notable. This city witnessed the strongest retail space absorption during the first three quarters. As a consequence, vacancy dropped by ~6.0 percent. Paradoxically, overallrentals and capital values in Chennai slipped the most, largely owing to large influx of supply in the suburban locations where prices are cheaper.

Kolkata and Mumbai came in as the second and third-best performing markets, recording relatively strong absorption figures. Unlike in Chennai, the increased demand in these two markets was not supported by strong supply. As a result, overallrentals and capital values increasedin the range of 5-10 percent y-o-y.

Among other Tier-I cities, Delhi-NCR and Bangalore witnessed poor absorption. With marginal absorption and an increase in stock supply, Pune retail real estate witnessed marginal fall in rental and capital values.

THE FACT THAT INDIA, ALONG WITH CHINA, PRESENTS ONE OF THE BEST POPULATION CHARACTERISTICS IN TERMS OF SPENDING POTENTIAL MAKES IT AN ATTRACTIVE MARKET FOR GLOBAL RETAILERS

Organised Retail Penetration (ORP) – *Under-Penetration Remains The Biggest Opportunity*

Currently, organised retailing accounts for only around7 percent of India's total retail market size, while the remaining is constituted of the unorganised sector. When comparing this ratio with other emerging nations such as Brazil (35 percent), Russia (30 percent) and China (20-25 percent), organised retailing in India clearly appears under-penetrated. In most of the developed markets, organised retail accounts for anywhere between 66 percent (in Japan) and 85 percent (in the US).

The fact that India, along with China, presents one of the best population characteristics in terms of spending potential makes it an attractive market for global retailers. Increased urbanisation in the Tier-II and Tier-III cities, along with a steep rise in rural income levels, presents a big opportunity for retailers, coupled with the benefit of low real estate costs in those cities compared to the expensive Tier-I cities.

2014:No High Notes, But The Show Will Go On

Macroeconomic Scenario – *Sluggish, But Demography Can Trigger Growth*

Macroeconomic fundamentals are unlikely to change during the first half of year 2014. In the second half, sentiments will be driven by election results, the state of inflation and global growth outlook.

On the domestic front, high inflation, exchange rate volatility and high current account deficit have been acting as a drag. Considering good monsoons

INTERNATIONAL BRANDS IN INDIA

WHAT MAKES THEM TICK, STICK AND SICK

SELECT CITYWALK, DELHI

Flashback 2002 when the mall culture in India had just stepped in, the only brands one would be able to recollect then would be the likes of United Colors of Benetton, Pepe Jeans and Levi's from across the world, which then had some kind of a hold in the Indian market. As the mall story in India unfolded, so did the entry of international brands for the Indian market. From top-notch brands like Marks & Spencer to fast fashion brands like Zara, today India can boast of a plethora of international brands opening not just a handful of stores but have plans to open stores in numbers at par (or even more) than the national brands. We speak with leading malls in India from across geographies to find out their modus operandi in facilitating the entry and survival of international brands in India

BY ZAINAB MORBIWALA

INORBIT MALL, MUMBAI

Malls have literally changed the way we used to consider things that fall under the gambit of 'leisure and entertainment'. Today, malls have taken it up on them to provide leisure, entertainment and shopping all bundled in one. If we step back a little and take a jog down our memory lane to figure out what all instigated, or rather inspired, this change, it wouldn't really be wrong to accept that in some or the other way a large extent of it was the influence of international brands entering India that championed this, especially with the likes of McDonald's entering India. Future Group's Big Bazaar, no doubt, set the ball rolling but, eventually, it was the influence of international brands that led the change.

But having said that, is the environment (internal as well as external) extended by the malls encouraging for international brands to survive, sustain and grow in India?

Kishore Bhatija, Inorbit Mall shares, "The Indian shopping centres have shown a positive growth in the past few years. Tier-II and -III markets have specifically seen this growth with newer concepts. Competition is higher than it ever was and it is only tilting the balance in favour of the consumer. Malls today are not just shopping centres but have also become a destination in itself. The learning curve in India has been very sharp. The industry is just 10 years old and we are witnessing tremendous changes for the better. I think malls are well designed and are indeed a sufficiently attractive destination. They only need to be managed and operated well."

International brands– What makes them tick and stick

Setting the context right, Manmohan Bagree, VP, South City Mall shares, "I believe the Indian retail market is a quite different ball game compared to other international markets and thus the strategy to serve the Indian consumers needs to be different and customised. We have noticed that majorly all international labels have done decent performance in India and have been well- accepted by Indian consumers, especially the ones who have really fathomed the depths of Indian consumer sentiments. You will notice that brands like Tommy, Hilfiger, US Polo Assn., Forever New, etc., who offer premium international brand recognition with best-offerings at competitive but viable pricing, doing exceptionally well. Labels like Zara (with its 'fast fashion' model), Forever 21, etc. have been highly welcomed by a growing rank of upwardly mobile classes who are brand- conscious."

Adding to this Yogeshwar Sharma, COO, Select CityWalk shares, "Some international brands, such as Zara and Starbucks, were sure-shot hit since their very first day in India. But, there are a few other international brands like Timberland, Nautica and Next who were not able to make their mark in the Indian market despite being extremely popular in the West. One of the main reason for these brands not performing well was that their pricing was not right as per the Indian market. But most of the times custom duty is too high, which is why the prices go up. For example, Diesel in India is more expensive than other countries, where it is present majorly. That is one of the main reasons why these premium brands do really well in sales period."

One of the largest malls in India, LuLu Mall has seen a gradual expansion in the number of brands that are signing up to be a part of their journey. On behalf of LuLu Mall, Shibu Philips, Business Head, LuLu Mall says, "Food and grocery is the largest category within the retail sector with 60 percent share followed by apparel and mobile segment. Several international brands

who have recently entered the market have been well accepted, such as Starbucks in food and beverages and Zara, Levi's, Louise Philippe in fashion to name a few. Their performance has encouraged several overseas brands to venture into the country like Japanese brand Uniqlo and the relatively affordable H&M.

Bhatija, feels that the entry of the international brands has also encouraged the domestic competitors to invest in infrastructure and logistics, as well as speed up the product and service delivery standards to match up with their international counterparts.

Sharing his views on the journey of international retailers in India, Sanjeev Mehra,GM, CESC Quest Mall shares, "I think it is a mixed trail of results – some good, some bad, some disastrous, but the focused ones who believe we are the future and they want to belong have stayed, invested and reprogrammed themselves to survive. I will choose to answer brands and retailers

SOUTH CITY MALL, KOLKATA

ENTRY OF THE INTERNATIONAL BRANDS HAS ALSO ENCOURAGED THE DOMESTIC COMPETITORS TO INVEST IN INFRASTRUCTURE AND LOGISTICS, AS WELL AS SPEED UP THE PRODUCT AND SERVICE DELIVERY STANDARDS TO MATCH UP WITH THEIR INTERNATIONAL COUNTERPARTS

as one. Their entry is probably the most important significant thing for Indian consumption, they have free freed us form from years of crap products, brought in competition, with world-class products, manufacturing, QC and the list goes on. It has also made sure Indian companies have reinvested and changed to survive. Different categories have different results but you can see that they have survived and are even going on their own breaking away from their Indian partner; this shows that they are serious."

Dinaz Madhukar, Senior VP and Mall Head, DLF Promenade and DLF Emporio aptly sums the journey of international brands in India saying, "The purchasing pattern in India has undergone a huge sea change. Indians' buying power has increased and so have their options with the entry of a number of international retailers who are trying to cash in on the change. International brands that have made their way the country are more or less associated with luxury retail, which in India has been growing by leaps and bounds. Contrary to popular belief, the country has always been pro luxury, as the people here are well travelled. Internet and electronic media have also played a very important role in creating this awareness. India has good economy and, it is one of those countries that have a high number of high net worth individuals (HNIs). According to The Knight Frank Wealth Report 2013, India ranks fifth on the list of HNIs. However, the performance of both national and international retailers is usually related to the market conditions. Though their entry has been fully welcomed by Indian consumers, their performance cannot be measured against their Indian

Commercial arcade game room and larger Family Entertainment Centres (FECs) are gaining wide acceptance across the country. Gone are the days when multiplexes were the only leisure format; the new buzzword in the entertainment and leisure segments are FECs, with malls betting really big on these formats. One of such format is SVM Entertainment. In a tete-a-tete with Shopping Centre News, Vijayender Tulla ; Chairman of SVM Entertainment talks about the growing potential of FECs and how they have become differentiators for malls

BY SHUBHRA SAINI

OPENING NEW HORIZONS FOR ENTERTAINMENT AND LEISURE

What was the thought behind launching SVM Entertainment?

While pursuing my degree from Northern Illinois University, USA, I was extremely enthused by the variety of entertainment options available abroad. I returned to India with a passion to introduce the same international standards in the field of entertainment in this country. It is my vision to transform India from an era “Before SVM” to one “After SVM”. Ever since our 2009 launch in Hyderabad, SVM has hit the ground running. In less than four years, we have captured consumers in five states and 10 cities, thus becoming the fastest growing entertainment centre in India!

What were some of the biggest challenges in setting up your FEC zone? How did you tackle those?

A decade ago, entertainment in India was limited to Bollywood and FEC was still an emerging concept with limited potential. We were trying sailing in new waters when we launched our first centre (50,000 sq.ft. in size) and the success of this venture proved the necessity of new entertainment options in India. However, as we expanded geographically, we came to realise that each city in India is different from another. To tackle this issue, we spent a considerable time understanding the market we were entering and customising our FEC according to the target audience in the city.

What’s the theme at SVM Entertainment FEC?

No two SVM centres look alike. Every SVM centre is conceptualised and designed post extensive market research. Unlike other players in the industry, we carefully study the entertainment habits of our target group in each location and design a centre that caters to the taste of our target demographics. This makes us unique and, hence, a successful entertainment centre in that city.

VIJAYENDER TULLA
CHAIRMAN, SVM ENTERTAINMENT

KEY INDUSTRY FINDINGS OF RETAIL REAL ESTATE SCENARIO IN INDIA

BY IMAGES RESEARCH

Consumption Expenditure, Modern Retail & the India Story

Emerging Markets are all about consumption. The new world that was envisioned saw huge new markets blooming on education and development; accepting new products and ideas; within vibrant environments that are abuzz with enterprise and activity. Places where emerging seas of communication continuously stimulate thought, innovation and consumption.

Currently, at the end of the third quarter of 2013 India has a population of 1.25 billion of which 50 percent are young (15 to 45 years), and one-third of these young Indians are also urban. One can by any form of logic only be hugely optimistic about the huge potential of Indian retail over the immediate future. It is indeed no surprise that the Indian retail market is cited as being amongst the largest and fastest growing markets in the world. Currently, a significant proportion of Indian GDP is contributed through retail, and even though Indian retail is largely unorganized, the organized section within it, called modern retail, is growing at a furious pace.

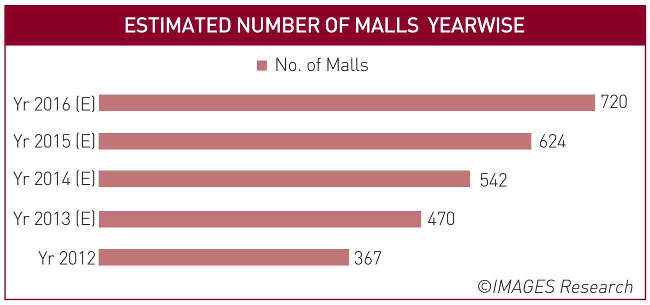
Indian Retail 2013 to 2016

Indian Retail growing at a healthy rate of 16 to 19 percent is expected to reach a size of 56.8 trillion rupees in 2016 of which about 11.1 percent will be modern retail. IMAGES Research is happy to report that the immense long term potential of Indian retail still remains unquestioned despite retail like every other industry going through a periodic difficult phase. But with the consumption potential of the Indian market, strong undercurrents of a recovering world economy and clear indications from both government and industry, Indian retail will surely emerge stronger than ever before. A slightly lower rate of growth of retailing can however be foreseen at least partly attributable to the slower rate of growth in the principal factors that underpin consumer expenditure. We have seen a clothing and footwear slowdown if we compare it to the much faster rate of growth in sectors such as electronics and food service. India will continue to have growth in consumer expenditure, though expectantly some will be fuelled by consumer debt.

Overall, we see no sign of the weakening of consumer confidence and no reason to see a reversal or stoppage of the pattern of growth, sometimes viewed as spectacular, which has taken place over the past 10 years. In fact, we see immense belief in another fresh phase of fast-paced growth if the Indian government and Indian retail Industry react and overcome the key challenges in the areas of investments, retail infrastructure, thought, systems, people, procedures, and execution.

Malls count grows, mall size grows: India has 470 operational malls. 250 more upcoming. Retail spaces get bigger overall

From just 2 malls in 1999, the growth of the number of malls has been rapid and eventful. By 2005 India had about 50 malls, which rose to about 250 by 2010. As of the third quarter of 2013, some 570 malls had opened in India, of which about 100 were subsequently shut down or are not operational, as of today, due to some reason or the other.

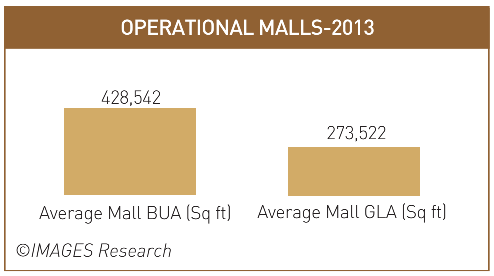


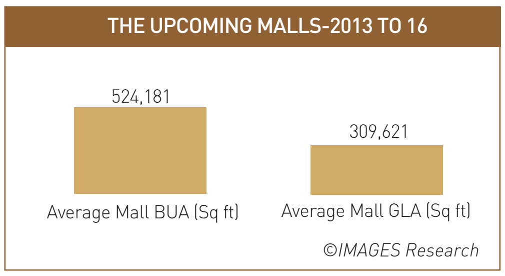
During the course of the malls study for this, the sixth edition of "Malls of India," Images Research obtained detailed analyzable information of 221 plus malls (47 percent of estimated universe), partial information of another 144 (30 percent of estimated universe), and clear indications from real estate consultancies and other sources, of the operational existence of another 105 plus (22 percent of universe). Thus, we confidently arrived at the verdict that today India has about 470 operational malls, with minimal assumptions. We have, for reasons of conservative prudence, assumed that the malls that we do not have analyzable details about should be, and are, smaller than the known analyzable ones by about 40 percent. We can as such safely estimate that the 470 operational malls in India definitely do have a Gross Leasable Area (GLA) of about 129 million square feet.

Further and similarly, we also obtained detailed analyzable information from 105 upcoming malls (42 percent of estimated universe), partial information of another 82 upcoming (33 percent of estimated universe), and clear indications from real estate consultancies and other sources of another 38 upcoming (15 percent of universe). Here, we have assumed that there are another 10 percent (25) upcoming malls that we are not aware of. This number may be even higher but we assume that this will be nullified by the upcoming projects that get held up or shelved. Thus, today, India has 250 upcoming malls. We have as before, for reasons of conservative prudence, assumed that the malls that we do not have analyzable details are smaller than the analyzable ones by 40 percent and thus estimate that the 250 upcoming malls in India will have a Gross Leasable Area (GLA) of about another 77 million sq ft of GLA.

This will take the total GLA in the country to 206 million square feet across the 720 malls that India will have by 2016. Within the last two years (post-recovery of general economic slowdown) the malls count has grown by 28 percent per annum, and the retail space in malls has also grown by a healthy rate. The number of stores, as well as the average size of retail store space, has also increased.

High-street retailers are now maximising the amount of trading space in their existing units. Apart from mere awareness, and due to lack of credible long-term national statistics for past periods to comment quantitatively on the long-term trend that has emerged in high streets, Malls of India - 6th Edition, is a perhaps a unique source of clear indications on the quantum of retail real estate development in India, and we can firmly see that the trend for year-on year increase in the amount of retail floor-space is going to continue over the foreseeable period. On the demand side too retailers on the whole are seeking larger spaces because shoppers are demanding this and voting with their feet if a store lacks the adequate or the comparative range necessary. The entry of international retailers with much larger space formats will further support the trend.





The average sizes of malls have also increased substantially over this period. India today already has about 10 malls that have gross leasable areas of around a million square feet and over 25 with a built up area of more than a million square feet.

SOBHA

PASSION AT WORK

Sobha City Mall

THE ONE PLACE
where profit is predictable

It's where over 2 lakh square feet of world class commercial infrastructure and upper class spending power come together to create the ultimate buzz

• Unbeatable business advantages

*The district with the fastest per capita income growth and highest density of NRIs | *Second largest consumer market in Kerala | *Where a third of the households have a MHI of Rs.25000 plus | *The cradle of gold industry | *A district famous for bullion banking and business acumen*

• Shopping by the lake side

With 6.5 acre man made lake as the backdrop, it's just where every shopper would want to shop

• Residents by day. Shoppers by night.

Over 2500 residents, all of whom are HNIs. It means regular, daily footfalls into your shop

• Leisure shopping for real

Great ambience, perfect setting, integrated access systems, efficient customer service, easy to follow direction maps, helpful floor managers and assistance staff make it one of most sought after shopping destinations

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