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INDIA REPORT

RETAILING REALITY

The Way Ahead for India's Retail Business

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EXECUTIVE SUMMARY

India's growth story continues to look optimistic despite the slowdown, primarily because much of its fundamental growth drivers remain intact. Medium and long term prospects for the economy too continue to be optimistic with steady domestic consumption.

Organised retail today holds only a fraction (6%) of the market share potential in India. The problem is not that consumers and/ or investors have lost confidence in the sector, but that organised markets jumped from zero to 6% market share in a very short period of time, which ate into quality growth. What the sector witnessed in the last few years was a volume, not a value-driven growth.

The report tracks the origin and performance of the retail industry in India over the years including strategies to create successful organised formats to match consumer trends as well as challenges faced by the sector at large.

HISTORY OF ORGANISED RETAIL IN INDIA

Retailing is as old as our marketplaces; and over the years, civilisations have thrived on the pulse of the marketplace. Trade, wealth and urbanisation have remained the keywords of great cultures and civilisations throughout the history of mankind. Be it the Greek agoras, the ancient Sumerian public squares, the Italian piazzas, Asian bazaars or the weekly haats of the Indian subcontinent – they have all fulfilled the need of place and opportunity for participation in community life.

Coming to modern India, the ubiquitous bazaar has retained its identity and character, though the semblance in its modern shopping-entertainment-lifestyle format is not always obvious. Nevertheless in terms of design, modern-day shopping structures represent an inspired fusion of main street shopping along with community-centric activity.

For many decades, the Indian government protected local retailing from foreign competition. This is why the retail market as well as the retail real estate market remained comparatively less developed in comparison to the commercial office markets in India. The retail landscape, today, is still characterised by owner-operated local shops (neighbourhood kiranas) and by local street markets. The vast majority of these shops have sale areas of approximately 500 sq.ft and below. According to prevailing market research estimates, nearly 80 percent of Indian retail undertakings continue to be small family-run establishments. The emergence of shopping centres in India is barely a decade old, having initiated in the major metropolitan centres as a result of higher demand for modern retail spaces.

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ORIGINS OF ORGANISED RETAIL IN INDIA

The emergence of organised retail in India dates back to the pre-independence era when the country's established business houses, mostly textile majors, ventured into the retail arena through company-owned or franchisee outlets. There were also exclusive tailoring shops, for instance, that ultimately expanded their span of operations to become leading regional fashion retailers -- Mumbai's Charagh Din, Kolkata's Burlington, Delhi's Mohanlal Sons and Bangalore's PN Rao, to name a few. It is worth a mention that southern India took the lead to establish the first organised retail chains in the food and grocery (F&G) segment in India, with stores such as Nilgiri's, Foodworld, Margin Free, etc. The consumer durables segment too has its roots in the south with regional players like Viveks, Giria's, Pai International, Vasanth & Co., etc.

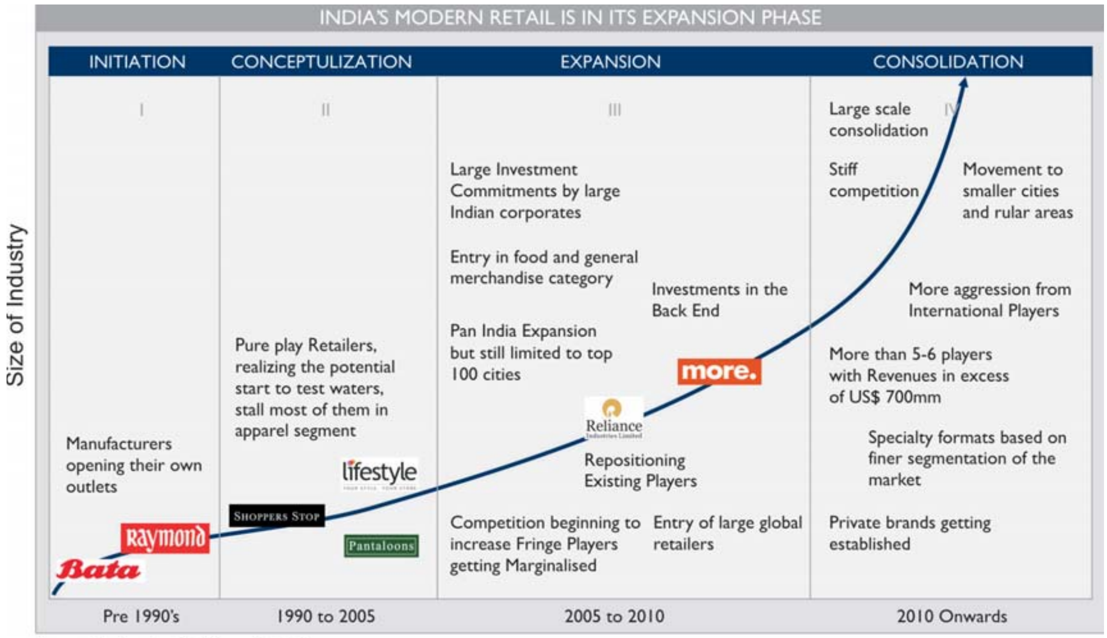
As far as retail real estate was concerned, the country's first 500,000 sq.ft. shopping centre from Mangal Tirth Estate called Spencer Plaza, came up in Chennai in 1990. This was to be followed nearly a decade later by Mumbai's Crossroad mall (150,000 sq.ft) from Piramal Holdings and New Delhi's Ansal Plaza (200,000 sq.ft) from Ansal Properties & Infrastructure in 1999.

As such the ongoing journey of organised retail in India can be broadly classified into four main phases:

- Initiation (pre 1990s)
- Conceptualization (1990 - 2005)
- Retail Expansion (2005 - 2010) and
- Consolidation (2010 onwards)

Retail Initiation:

The initial evolution of modern retail in India primarily transpired through established textile majors' forward integration in retail. This phase was essentially dominated by manufacturers establishing their presence in retail. The key players during this era included Bombay Dyeing, the Raymond Group, the S Kumars Group and Bata to name a few. Central and State Government departments and co-operative bodies such as the Public Distribution System, Mother Dairy, Kendriya Bhandar, Super Bazaar, etc., played a key role in the Indian retail market as prominent retailers. These early years also saw the emergence of regional chains primarily



Source: Technopak Advisors Pvt Ltd

in the southern region and some of these chains later established a nationwide presence.

Among major textile houses that made an early mark, Bombay Dyeing finds prominent mention. The Group's activity goes back to the late years of 1800 when Bombay Dyeing's cotton yarn was hand dyed. Today Bombay Dyeing has a chain of over 600 Exclusive Brand Outlets (EBOs) across India. The Raymond Group, set up in 1925, is another textile major that ventured into retailing in the 1950s and eventually became one of the country's major retailers, with a number of apparel brands in its folds. Today Raymond has over 390 stores across 180 cities in India. Founded in 1948, the S Kumars Group represents yet another textile major turned pioneering retail venture of India.

Apart from textile and fashion houses, a number of organised food and grocery (F&G) businesses have a long history like the Bangalore-based F&G chain, Nilgiri's, that started in the early 1900s as the bakery chain, Nilgiri's Dairy Farm. Today, Nilgiri's is one of the finest retail chains in southern India that works on both company-owned and franchisee store models. Another major F&G player, Foodworld, was the first national retail chain from the RPG Group. Despite being a Kolkata-based business house, the first Foodworld supermarket was set up in Chennai in 1996.

These remained the only organised retailers in the country for quite a long time, till the post 1990 period saw a fresh wave of entrants in the retailing business.

Retail Conceptualization:

The threshold of the 1990s saw a new beginning in the retailing business. This time around it was not the manufacturer looking for an alternative sales channel, but pure-play retailers who entered the retail market, to expand pan-India, for instance Pantaloons, Shoppers' Stop and Lifestyle. It is interesting to note that most new retailers in this era focussed mainly on apparel and other related fashion categories.

An important occurrence during this time was the liberalisation of the Indian economy and the opening of entry opportunities for foreign brands/ retailers. The first generation of international brands to make an Indian entry during this phase included McDonald's, Benetton, Levi Strauss, VF Corporation, Adidas, Reebok and Nike, to name a few.

Retail Expansion:

As the name suggests, this is perhaps the most active phase of the Indian retail industry in terms of growth, entry of new players and development of new formats. A growing middle class, increasing disposable income as well as a large and young consumer population led to rapid growth in the Indian retail market.

Having realised the vast potential of the relatively untapped domestic market, large industrial conglomerates like Mahindra and Mahindra, Reliance, Tata, Aditya Birla and Essar entered the Indian retail arena during this period. Most of these groups committed large investments in the retail sector and planned to establish pan-India brands which enjoyed significant success in the years that followed. Their success brought in global retailers such as Metro AG, Max Retail, Shoprite, Hypercity, etc and more recently Carrefour, Tesco and Zara that announced their India entry and are optimistic about their growth in this market; others like Bharti-Walmart, SPAR, Debenhams and Mother Care have already established their presence here.

Apart from large conglomerates and international retailers, a number of regional players particularly in the supermarket segment also geared up activity. The period saw the emergence of new formats like cash and carry, large format discounters, food courts, multiplexes, children's play zones and gaming zones.

On the real estate front there was frenetic activity with a large number of malls proposed / developed across major metros[1] and upcoming tier-II cities. The size of the malls also went through rapid transformation from an average

1: Major metropolitan centres refer to the NCR, Mumbai, Bangalore, Chennai and Kolkata. The top eight cities considered for various retail related studies in this paper refer to the above cities in addition to Hyderabad, Pune and Ahmedabad.

Minimum guarantee and revenue sharing models have found acceptance among some retailers and developers, especially in the case of mall transactions.

size of 150,000 - 200,000 sq.ft. to 500,000 -1,000,000 sq.ft.

The rapid growth soon attracted the luxury product segment in an environment of economic liberalisation along with rising purchasing power parity (PPP) index of domestic consumers. The most important categories for luxury goods consumers soon became high-end automobiles, electronics and other home improvement products, besides fashion, lifestyle and fine dining. Global luxury brands (such as Louis Vuitton, Hugo Boss, Salvatore Ferragamo, etc.) were selectively available in India from the late 1990s, but till about 2005 these were retailed only through franchisee agreements, in the absence of any policy permitting Foreign Direct Investment (FDI) in single brand retail. With the FDI policy 2005-2006 allowing single-brand foreign retailers to take up to 51% stake in a joint venture with a local firm, the intervening years saw the entry of several premium brands (Giorgio Armani, Versace, Gucci, etc.) mostly through joint ventures.

One of the main reasons, however, for luxury retail not taking off in India was the lack of a luxury retail environment. There was an evident lack of premium spaces for premium brands which led the early entrants to restrict their presence to star category hotels in key cities only. More recently, exclusive retail space options like The Collection at UB City, Bangalore and DLF Emporio in Delhi, surfaced, other than star hotel plazas.

Retail Consolidation:

The phase now anticipated in the wake of the ongoing global turmoil is one of consolidation. According to a recent KPMG report (Indian Retail: Time to Change Lanes) the organised retail sector witnessed an 11% decline in sales in 2008. Considering the challenges faced by the industry at present, retail chains are likely to focus on consolidations to cut costs and survive in the market. In the present scenario, companies are increasingly concentrating on strengthening existing operations while assessing growth options through consolidation.

CURRENT RETAIL REAL ESTATE SCENARIO

Since the second half of 2008, the retail segment has experienced significant pressure, marked by lower or negative revenue growth over last year on same store basis and high rental costs of the stores added in 2007-2008 that ultimately forced retailers to re-look their portfolio. Hence, sustainability has become the main challenge for brands and retailers over the last couple of quarters and towards this end, many have begun to work on innovative revenue models and retail formats. Minimum guarantee and revenue sharing models, for instance, have found acceptance among some retailers and developers, especially in the case of mall transactions.

Over the past few quarters, retailers across India's major cities began to resize stores, renegotiate rentals and even exit from locations where operations had become unviable. In certain micro-markets, retail spaces were converted to office space in the hope of demand for latter reviving. Another development saw over-hyped luxury retail spaces in the NCR and Bangalore failing to take-off unlike initial market expectations.

In the next few sections, the performance of malls in the country gives a fair indication of the performance of the organised sector at large in the current scenario.

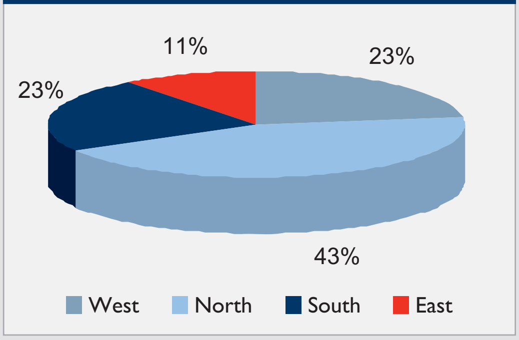
MALL SUPPLY

With mall supply progressively increasing over the last few years, the year 2008 saw approximately 18% increase over 2007 in India's top eight cities at 9.6 million sq. ft., However, there was a lag of more than 50% from the first quarter supply projections in 2008.

According to Cushman & Wakefield (C&W) Research, the anticipated mall supply for the major eight cities (as indicated in the graph) in 2009 stands at approximately 7.39 million sq.ft, which partially includes the staggered mall space that remained undelivered in 2008. This estimated supply for 2009, incidentally, is just about 34% of what developers in these cities claim (approximately 21 million sq.ft) to be operational by end-2009. With nearly 2.01 million sq.ft of fresh mall supply, C&W Research expects Mumbai to witness the largest share of new supply in 2009, followed by Chennai with 1.25 million sq.ft and Hyderabad with approximately 1.20 million sq.ft.

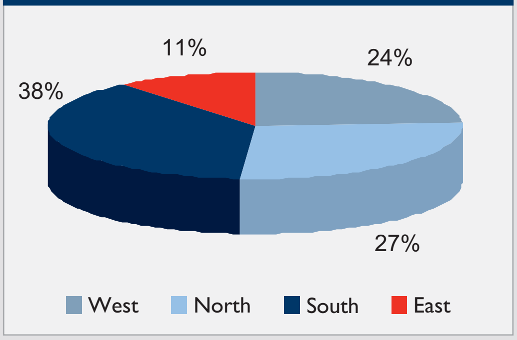
On a pan-India level, based on the mall supply estimates from market sources for 37 cities spread across the four geographical zones of India, the year 2009 is expected to see around 44 million sq.ft of mall space. According to realistic estimates made by C&W Research, however, just about 28% of this projection is likely to get delivered by the year-end. Further,

MALL SUPPLY 2010(F)
(C&W Estimates)



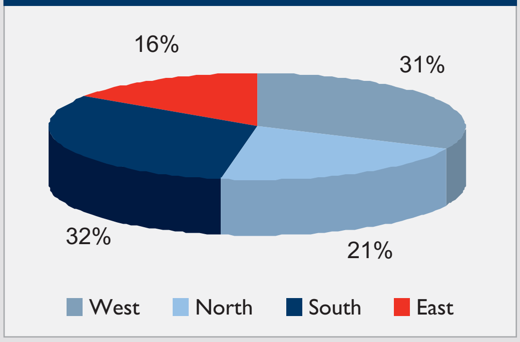
Source: Cushman & Wakefield Research

MALL SUPPLY 2009(F)
(C&W Estimates)



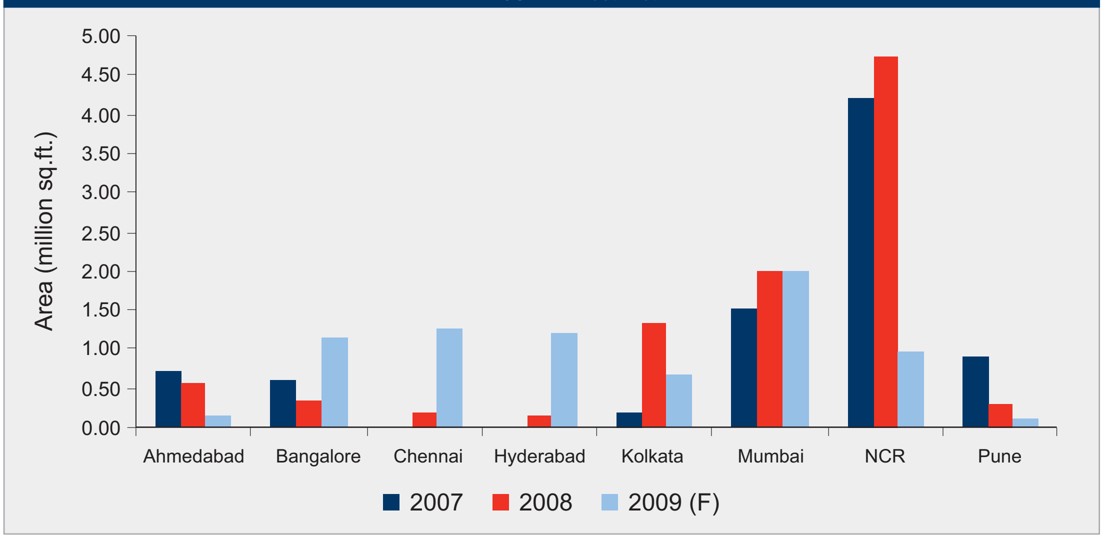
Source: Cushman & Wakefield Research

MALL SUPPLY 2011(F)
(C&W Estimates)



Source: Cushman & Wakefield Research

MALL SUPPLY 2007 - 09



Source: Cushman & Wakefield Research

F : Forecast

while market estimates stand at around 53 million sq.ft for 2010, C&W Research assesses realistic supply to be around 29 million sq.ft. Our realistic estimates for mall supply in 2011, too, stand at a little over 40% of the market estimates which claim that nearly 40 million sq.ft of fresh mall space will come up across India's 37 cities.

West Zone:

The cities from the West Zone include the seven cities given in the table. The maximum cumulative supply over the next three years is expected from Mumbai (nearly 8.9 million sq.ft), followed by Pune at nearly 4.12 million sq.ft and Ahmedabad at 1.25 million sq.ft across the years 2009 to 2011.

According to market estimates, 2010 and 2011 are expected to see significant supply coming in from the West zone (34% and 30%, respectively), although C&W Research estimates the share of West zone malls to be 24%, 23% and 31%, respectively over the years 2009 to 2011.

North Zone:

The cities that were considered from the north zone include the 10 cities given in the table. The highest supply cumulative over the next three years is expected from Delhi NCR (about 9.8 million sq.ft), followed by Chandigarh at around 2.9 million sq.ft and Amritsar at 1.5 million sq.ft.

Developer estimates for 2009 see the highest mall share (40%) from the Northern zone, while C&W pegs the share at just 27% in anticipation of project delays. Further, our projections indicate that the delayed projects are likely to be delivered in the year 2010, taking the north

WEST MALL SUPPLY ESTIMATES 2009 - 2011

City	Supply for 2009(F) (million sq. ft.)	Supply for 2010(F) (million sq. ft.)	Supply for 2011(F) (million sq. ft.)
Ahmedabad	-	1.25	-
Indore	0.25	-	-
Jabalpur	0.13	-	-
Mumbai	2.00	4.25	2.65
Nashik	0.48	-	-
Pune	0.10	1.12	2.90
Surat	-	0.10	-
Total	**2.96**	**6.72**	**5.55**

Source: Cushman & Wakefield Research

NORTH MALL SUPPLY ESTIMATES 2009 - 2011

City	Supply for 2009(F) (million sq. ft.)	Supply for 2010(F) (million sq. ft.)	Supply for 2011(F) (million sq. ft.)
Agra	-	0.34	0.30
Amritsar	0.75	0.75	-
Chandigarh*	0.92	0.45	1.50
Delhi NCR**	0.97	7.73	1.05
Jaipur	0.65	0.33	-
Jalandhar	-	1.35	-
Kanpur	-	0.80	-
Lucknow	-	0.60	0.35
Ludhiana	-	0.35	0.43
Meerut	-	-	-
Total	**3.29**	**12.70**	**3.63**

Source: Cushman & Wakefield Research

*** Includes Zirakhpur, Panchkula & Mohali**
**** Includes Delhi, Gurgaon, Faridabad, Ghaziabad, Noida & Greater Noida**

supply share to 43% (as against builder forecasts of 27%).

South Zone:

The south cities appear to be considerably active with 11 of the total 37 cities belonging to this zone (as shown in table). The maximum supply cumulative over the next three years in the southern zone is expected from Bangalore (about 5.3 million sq.ft), followed by Chennai at around 3.6 million sq.ft and Hyderabad at approximately 2.0 million sq.ft.

While builders forecast a 21% supply share in 2009 and 31% in 2011, C&W Research estimates the highest share in 2009 (38%). This zone accounts for slightly more towns and cities that will be able to sustain additional mall space in the coming years, in comparison to other zones because while markets like New Delhi and Mumbai have nearly exhausted their sustainable mall space potential, the major southern trio of Bangalore, Chennai and Hyderabad still offer potential for more.

East Zone:

The eastern zone accounts for nine (cities given in table) of the total 37 cities considered. The maximum supply in the zone cumulative over the next three years is expected from Kolkata (about 2.1 million sq.ft), followed by Raipur at nearly 1.90 million sq.ft.

According to market estimates, malls from the zone are likely to account for a mere 6% of the total 37-city supply in 2009 though C&W

SOUTH MALL SUPPLY ESTIMATES 2009 - 2011

City	Supply for 2009(F) (million sq. ft.)	Supply for 2010(F) (million sq. ft.)	Supply for 2011(F) (million sq. ft.)
Bangalore	1.16	2.64	1.52
Chennai	1.25	0.45	1.94
Coimbatore	-	0.68	-
Hubli	-	-	0.35
Hyderabad	1.20	0.85	-
Kochi	0.50	0.16	0.90
Mangalore	0.53	0.15	-
Mysore	-	0.96	0.80
Thiruvan'puram	-	0.27	-
Vijaywada	-	0.20	-
Vizag	-	0.21	-
Total	**4.64**	**6.57**	**5.51**

EAST MALL SUPPLY ESTIMATES 2009 - 2011

City	Supply for 2009(F) (million sq. ft.)	Supply for 2010(F) (million sq. ft.)	Supply for 2011(F) (million sq. ft.)
Asansol	-	0.24	-
Bhilai	-	0.40	-
Bhubaneshwar	-	-	-
Guwahati	-	-	-
Haldia	-	0.50	-
Jamshedpur	-	0.55	0.57
Kolkata	0.69	0.53	0.91
Raipur	0.62	0.65	0.59
Siliguri	-	0.22	0.65
Total	**1.31**	**3.09**	**2.72**

Source: Cushman & Wakefield Research

Research estimates it to be 11% in 2009 owing to the reduced share from other zones.

Similarly, while market estimates stand at 24% and 12% for the mall share of the eastern zone in 2010 and 2011 respectively, C&W estimates stand at 11% and 16%, respectively for these years.

MALL VACANCY LEVELS

The delays in expected mall supply coupled with low space take-up led vacancy rates in 2008 to remain at an average of 9% (as of December 2008). This was largely due to uneven distribution of mall space in the major cities, where mall supply is largely concentrated within a single district targeting same or similar consumer profiles. From the retailers' point of view, premium high streets remained the preference over malls, further aggravating the situation. In cities like Delhi and Pune where the distribution of malls is fairly equitable, high vacancy levels were in some cases a result of sub-average quality of development which deterred major retailers from venturing into such malls. In 3Q, 2009 the highest level of vacancy was witnessed in the NCR (27%) and Pune (17%), while the lowest vacancy level was witnessed in Bangalore which settled at approximately 2%. The overall seven-city average for available space in operational malls stood at around 17.5% in 3Q, 2009.

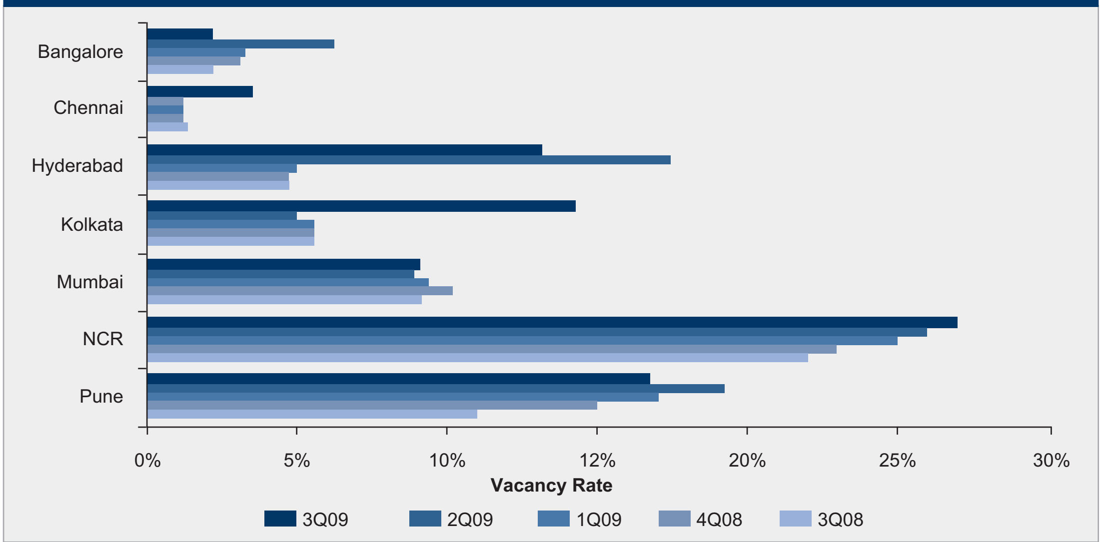
CURRENT SCENARIO

The organised retail market in India is undergoing a major re-structuring phase and is expected to get back into momentum as soon as prevailing market conditions begin to stabilise. More realistic consumer research, proper feasibility/ valuation studies and affordable real estate prices, are likely to benefit India's domestic retail industry in the long term.

Between the years, 2005 - 2007, the earlier years of the Indian retail boom, many projects were initiated across major Indian cities, including tier II and III towns. Retail was then perceived as the ultimate money churner and anyone with a piece of land seemed keen to embark on a mall development project. Since mid-2008, quite a few such retail mall projects witnessed deferrals or conversion to commercial establishments or even abandonment.

Meanwhile, the considerably high rentals made business unfeasible for many retailers as returns no longer justified operational costs. In such a scenario many retailers scaled down their operations, re-sized their formats or even modified their business models to work out more feasible propositions.

7 CITY MALL VACANCY TREND



Source: Cushman & Wakefield Research

Consumers trade excess for excellence, and superficiality for substance, in hard times - in short, they go low on frequency but high on value.

FAST FACTS

- The top 10 cities of India will account for 66% of the total cumulative supply projected for 2009-2011 in 37 cities.
- About 31% of the estimated supply for 2010 includes deferred projects from 2008 and 2009.
- Southern cities are likely to offer more potential for additional mall space over the coming years as NCR and Mumbai witness a lesser share in total mall supply.

Despite the Indian economy witnessing a slowdown in demand, the AT Kearney's Global Retail Development Index 2009 (GRDI) ranked it at the top. As per Technopak Advisors, the retail market in India was valued at USD 372 billion in 2008, with the organised retail market size standing at USD 17 billion. Despite the global scenario of decelerated demand, the Indian economy with strong fundamentals and significant domestic demand is likely to recover earlier than most other developing countries.

CONSUMPTION TRENDS

The global slowdown in its aftermath took a toll on the retail sector when the impact of the former hit the Indian shores. The growth trajectory of the Indian retail market was not encouraging during FY 2008-2009. As opposed to the initial euphoria of the previous years, the market underwent marked transformation across segments with limited new entrants to the arena. With purchasing power and spending habits feeling the direct hit of the economic downturn, the retail segment was ultimately affected.

Mid-2008 was marked by a significant rise in commodity prices, with inflation reaching double digits, the highest in 13 years. This put significant pressures on the consumption pattern of the Indian consumer. Food and necessary allied articles as well as fuel prices rocketed to very high figures, entailing imbalances in household budgets.

Though footfalls in malls and main streets remained more-or-less stable over the last couple of quarters, the average bill sizes reduced by almost 15-20%, while sales figures in shopping malls reportedly dropped at least 10% by the first quarter of 2009[2] (March 2009). As far as consumer behaviour goes, the impulse buying trend was particularly affected in the prevailing recessionary atmosphere.

CONSUMER BEHAVIOUR IN TIMES OF RECESSION

According to the US Bureau of Economic Analysis, at the peak of the Great Depression in 1930, Americans spent a full 24% of their income on clothing and shoes alone and 76% on necessities (also including food and housing). Last year, by contrast, they spend 13% on clothing and 50% on necessities[3]. Consumers, it would seem, trade excess for excellence and superficiality for substance, in hard times - in short, low on frequency but high on value.

This is probably the right time to focus on product categories that work in these times. Typically, daily usage commodities such as F&G, F&B and value retailing are recession-proof, as are long-term, high value purchases such as home furniture and consumer durables. On the other hand, impulse buys of leisure retail items take a hit, as do high-end luxury purchases such as fashion apparel and accessories as well as other lifestyle retail products.

Value perception is the key for consumers in recessionary times and as such value retailing and discount formats face a lesser brunt. Though the segment may witness reduction in volume of sales, it is unlikely to witness a total turn-off from consumers. Similarly, as food is one of the basic necessities, the F&B segment and quick-service restaurants (QSR) too face a lesser impact, though there might be a reduction in average ticket prices. Supermarkets, hypermarkets,

2: Retailers Association of India (RAI)
3: Newsweek, Special Double Issue, April 6-13, 2009, "A Few Good Shirts" by Jonathan Tepperman (pp 37-39)

QSR and other value formats are likely to see healthier conversions than others in these times.

ASSUMPTIONS, CHALLENGES & ROAD BLOCKS PLAGUING THE SECTOR

There is a very evident retail real estate supply lag in the market at present as against supply predictions made earlier for 2009-2010, compounded by a serious demand slowdown. One might even venture to say that shopping centre supply in the country at present is progressing on more sensible lines in comparison to the same, a couple of years ago. But unfortunately, it has coincided with an unusual loss of tenant demand and consumer confidence that stems from a conglomeration of different but related issues, plaguing the retail real estate sector in particular and the economy in general.

Organised retailing in India witnessed almost 34-35% CAGR over the last five years[4] up until December 2008 when the share of organised retail market in India stood at around 6%. Anticipating the growth of the retail sector to further shoot in times to come, industry players announced mega retail projects and expansion plans during the peak. However, owing to the slowdown, the growth of the retail sector dropped to almost 15% in 2008-2009, resulting in project deferments by nearly 12-24 months.

Real estate is the biggest cost component of the organised retail business in India. Effected sales in the prevailing recessionary atmosphere in turn affected profit margins forcing retailers to re-negotiate rentals, which stood at over 40% of overhead costs following the rental peaks in mid-2008. Mall occupancy costs that include Common Area Maintenance (CAM) charges, energy costs, service taxes, marketing costs, etc. tend to inflate the cost of a mall outlet by about 10-15%; in light of the dropping sales these costs affected brands and retailers.

All these factors taken together cumulatively led to a halt in expansion plans, causing a drop in tenant demand for retail spaces in recent times. Further, several retailers either downed shutters on unviable stores, or relocated to more viable sites. Industry players, who were expanding fast across geographies without consolidating backend operations and/or proper consumer research, were the hardest hit.

Bursting Retail Myths

Common Assumptions	Myth	Reality
Luxury retail is an over-hyped segment in the Indian context		•
Highway malls will be successful in India	•	
Discount formats should be located outside city limits	•	
Organised F&G retail is challenged by India's traditional home delivery system		•
Mega malls and huge stores are best for Indian consumers	•	
More developer-retailer collaborations are required in India		•
India's tier-III towns will experience a major boom	•	

Source: Cushman & Wakefield Research

As mentioned earlier, mall supply across major cities witnessed a slowdown in response to the slowing retail demand. So much so that even malls that are nearly ready for possession are facing challenges in attracting tenants. In response, today many developers have begun to support retailers by reducing the fixed occupancy cost or offering revenue share and minimum guarantee opportunities in a bid to increase occupancy rates. Compared to the earlier situation (in many cities) when malls were launched with full tenancy/ zero vacancy, the current scenario indicates an acceptance among many reputed developers to launch projects with 35-40% vacancy rates. However, many proposed projects are yet to attract tenants despite credible developer reputation, forcing developers/ builders to re-think their project launch schedules and/ or resize on-going projects as vacancy levels increase in operational malls.

4: Retailers Association of India (RAI), November-December 2008

Where did the retail real estate segment go wrong?

Most respondents interviewed from the retail industry (brands/ retailers, developers, financial institutions and various other stake holders) for the purposes of understanding what has been ailing the retail sector of late, were of the opinion that the main reasons have been:

- Lack of primary research prior to planning retail spaces (which has led to a growing demand-supply mismatch across most cities)
- Lack of commitment/ responsibility towards a mall's success from all parties involved
- Lack of professional mall management/ marketing strategies

The retail sector went wrong in understanding the Indian consumer's mindset and preferences.

These are just some areas of concern with respect to modern retailing in India. The sector went wrong in understanding the Indian consumer's mindset and preferences, especially the curve along which consumerism in India was most likely to grow. The lack of best practices resulted in the creation of inadequate infrastructure, which ultimately affected expansion plans and development strategies.

It also resulted in the creation of sub-standard spaces at unrealistic/ inflated prices, so that even in a situation of over-supply and hyper-demand, too many were chasing too few good properties. This led to escalating rentals that were not the result of organic growth in the market but were driven by speculation against a backdrop of robust economic growth. But once market conditions overturned with the beginning of the global turmoil and FDI dried up, the equations changed.

As is common knowledge, the retail market is currently undergoing a correctional phase that is likely to continue for the next couple of quarters, before hitting a plateau that will also in all likelihood continue for a few more quarters. This anticipated trend, however, is viewed positively by several industry experts, in expectations of a revived sustainable growth path.

Some of the major issues plaguing the segment in India are discussed below:

OVERSUPPLY IN RETAIL SPACE

The last boom period of the real estate sector as a whole saw a propensity towards over-building, especially during the years 2006-2007, irrespective of any demand consideration. In the retail arena, mall developers worked on a 'me-too' sentiment that often compromised on quality. This has today led to an over supply situation, accompanied by high vacancy rates across all asset classes. In Pune, for instance, where the distribution of malls is fairly equitable, high vacancy levels were a result of sub-average development quality which deterred major retailers from venturing into these malls.

CONNOISSEURS' VOICE

"Retail real estate in India could have done significantly better by building malls with defined research and value proposition and by looking into the developer-retailer relationship as a win-win imperative. This could have avoided the leasing of below-standard retail space at significantly inflated prices. Also, only a small proportion of mall owners had a systematic mall marketing/ management plan."

- Andreas Gellner
Managing Director, Adidas India

The lack of any befitting primary research and market feasibility/ consumer studies undertaken, prior to any project planning, has led to the current oversupply situation. As a recent KPMG report points out, this trend resulted in certain attractive city centres being devoid of malls and newly developed areas having too many (e.g. the NCR and Mumbai), ultimately leading to a clustering of malls. The classic example of this phenomenon is the Mehrauli-Gurgaon (MG)

Road in Gurgaon, which supports nearly 10 malls clustered around an approximately 4 to 5 km stretch of the road. This has to be the most unique mall development instance of its kind in the entire globe!

CONNOISSEURS' VOICE

"Nobody understood that it was a simple business which needed sticking to. Most retailers and developers ignored the basics and forgot the needs of the consumer."

- Tirthankar Banerjee
Head Business Development,
Hypermarkets South, Aditya Birla Retail Ltd.

The large entry of global brands and retailers into India since 2006 (to some extent the result of the prevailing FDI policy in retail) also led to the emergence of newer retail formats and segments, encouraging mall developers to create larger mall spaces. Often the prevailing belief was that speculative constructions would soon see occupancy in light of an assumed great demand and hence, the much recommended feasibility studies were given a skip.

CONNOISSEURS' VOICE

"In the situation of oversupply and hyper demand, too many were chasing too few good properties."

- Sanjay Coutinho
COO, Barista Coffee Company Ltd

Having exhausted the retail potential of some of the country's major cities (namely the NCR and Mumbai) by announcing multiple retail projects, the sector thought to exploit the potential offered by the untapped markets of India's small towns. It was around 2006 that the industry was abuzz with talks of tier-II and III locations becoming the next emerging growth centres, spurring development plans in towns like Kochi, Mysore, Mangalore, Jaipur, Chandigarh, Ludhiana, Kanpur, Bhubaneswar, Guwahati, Nagpur, Nashik and Surat, to name a few. Sadly most of these smaller towns and cities never really took off quite as dramatically as predicted due to various reasons, the principal being inadequate infrastructure facilities. In many cases builders and multi national retailers continued to debate the feasibility of locating businesses in tier-II and III destinations, as against peripheral locations of tier-I cities, which remain commercially more lucrative.

Other concepts that went wrong around that same period included beliefs, such as, India was ready for exclusive luxury malls, that mega malls measuring a million-plus sq.ft was what Indian shoppers were waiting for across the country, and so on. Some other concepts, which were commendable ideas in themselves, also proved to be unviable in many instances. One such would have to be the case of speciality malls. Be it the Eva Mall (women's mall) of Bangalore, Fort Knox (jewellery mall) of Kolkata or the MGF Plaza (home improvement mall, with Arcus as the initial anchor tenant) in Gurgaon; most of these just failed to click with the Indian consumer.

FUNDING CRUNCH

The global economic slowdown and the consequent liquidity crunch led to negative growth rates, increasing interest rates as well as dimming investment interest from foreign funds. The latter is essentially attributed to the perceived high risk and high reward equation of investments in the Indian RE market turning awry. Significant delays in retail real estate developments and opposition to organised retail (in the form of local and traditional retail bodies opposing the expansion of national retail players) resulted in investment delays. Consequently, many brands/ retailers were unable to meet their expansion targets.

Following the global cash crunch situation, one of the major concerns for established and emerging RE firms in India has been to organise funds for ongoing as well as upcoming projects. The turmoil in the stock market in mid-2008 also impacted the Indian real estate sector leaving majority of large developers with half completed or stalled projects.

Around the second quarter of 2008, the Reserve Bank of India declared RE as a sensitive sector under its prudential norms. In tune with the cost of funds and the need for additional capital for risky assets, banks in India increased their lending rates for RE projects. Since banks needed to set aside a comparatively higher amount of capital for real estate exposure compared to other sectors, real estate attracted a higher-risk weightage; and lending resultantly became closely monitored. Banks also began to ask for higher contributions from promoters and developers as a precautionary measure to safeguard themselves against loans. The severe liquidity crunch also compelled many developers to pick up cash from the unorganised market at higher interest rates.

The severe liquidity crunch compelled many developers to pick up cash from the unorganised market at higher interest rates.

For grade-A developers, access to capital was not as easy as it was in the period 2006-2007 and they began raising capital for projects through Special Purpose Vehicle (SPV) channels as well as by way of Private Equity (PE) or similar sources. The public market route ceased to be lucrative and though the cost of debt went up, it was an available option, other than the PE route.

As the recent KPMG report on the retail sector points out, a large number of retailers too are typically highly leveraged and rely on fresh equity funding for growth. This has been understandably difficult to come by in the current market scenario, with banks reluctant to finance retailers, considering shrinking consumer demand and low profitability. Another challenge is that retailers are mostly debt funded in recent times, causing substantial leverage, compounding the financing risks faced by brands/ retailers who have had to deal with high interest payments even as profits reduce. Those who had raised huge funds through PE and debt for expansion are, especially, finding it difficult to sustain operations.

SHRINKING INVESTMENT OPTIONS

Investors today prefer to avoid pre-launch and/ or pre-lease projects altogether on the back of a drop in yields coupled with low leasing activity and high vacancy rates. Additionally, many first-time mall developers who were earlier planning their projects on sales model have now either postponed or cancelled their plans, further limiting investment opportunities.

However, there is still some opportunity for the long-term investors looking at capital appreciation in established retail destinations such as a Linking Road or a Colaba in Mumbai, Brigade Road and/or Commercial Street in Bangalore, or even Khan Market and South Extension in New Delhi, to name a few.

Mall-wise, owners have made significant gains through lease of their retail space over the years and are likely to hold on to their investments till demand revives. In the event of investors exiting from established mall spaces with assured returns, there is an opportunity to invest in malls such as The Forum (Koramangala) in Bangalore, the InOrbit Mall (Malad) in Mumbai as well as the MGF Metropolitan and DLF City Centre in Gurgaon. Investing in malls at good locations with typically low vacancy levels is seen as ensuring capital preservation.

RETAIL REAL ESTATE CONFIDENCE INDEX

The retail real estate sector has been under significant pressure since the second half of 2008. While retailers opine that developers have not done much to make the country's malls attractive destinations, developers hold the view that retailers ought to strategise their businesses more appropriately. Whatever be the final outcome of this ongoing debate, the fact to be noted is that it is the retail segment which has been in focus in most tier-I and II locations compared to other commercial real estate asset classes. Several instances may be cited of retailers moving out of malls because of unviable rentals and sundry charges passed on to them. Such acts have even led a few developers to succumb to the prevalent reduced demand, causing them to convert their planned retail spaces into commercial offices.

RETAIL CONFIDENCE INDEX

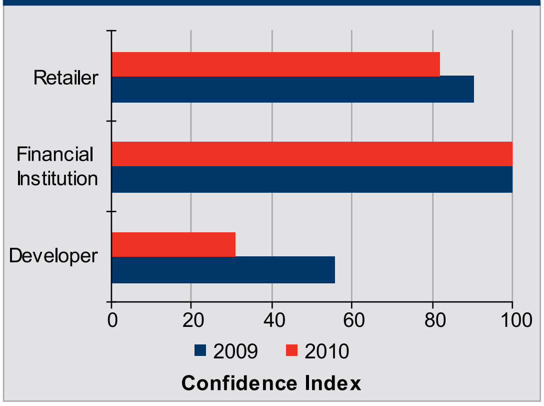
Source: Cushman & Wakefield Research

The apparent reduction in retail space demand, and the apprehension of malls turning into failed business propositions, coupled with the restrained availability of funds for upcoming retail projects – have all added to the woes of retail developers in the current market scenario. This has negatively impacted the confidence levels of both market stakeholders and consumers – albeit at varying degrees, as shown in the graph.

The drop in the confidence level was relatively lower for retailers who are still willing to expand in the short term, provided the rentals correct further to more affordable levels and ensure sustainability. Developers, on the other hand, regard the impact on the retail segment as far fetched and less likely to recover in the short term. Restricted access to credit (as mentioned earlier) is also posing to be a major deterrent for those facing difficulty in project completion. The rental corrections to the expected levels seem to be challenging as of now.

Financial institutions, however, maintain a neutral stand. They opine that the rental corrections along with the revival of the macro economic factors are likely to trigger the demand in the retail sector. It is anticipated that they will explore opportunities with a lot of caution and be ready to provide the necessary funding for selected projects that are sound, feasible and have positive cash flows.

RETAIL CONFIDENCE INDEX



Source: Cushman & Wakefield Research

Given the prevailing state of affairs with high interest rates and restricted credit availability to the real estate sector, the present scenario is not conducive for major developments. Barring a few retailers, other stakeholders also feel that the demand for retail assets is likely to remain subdued in the short to medium term.

Selected developers may leverage the infusion of liquidity and contemplate completion of their currently underway project. As they strive to be a part of the better economic conditions in future, many are likely to rationalize rentals and leasing terms, which are expected to attract retailers, as such options become more affordable.

As the economy revives, it is anticipated that the retail real estate sector will gain the necessary momentum and will set the path for another growth trajectory, incorporating the lessons learnt during the current downturn.

MALLS, MAIN STREETS & LOCAL MARKETS: POSITIONING IT RIGHT

RESEARCH METHODOLOGY

Cushman & Wakefield's Retail Real Estate Confidence Index is a measure of the stakeholders' confidence level and experience based on the current market scenario and future outlook. To assess the level of confidence, a survey was conducted across the country where the respondents (developers, retailers and financial institutions) shared their opinion on several factors pertaining to financial environment, business conditions, present and projected demand and movement of rental values to name a few.

The information was then assessed to identify the shift in confidence levels, which would influence future business cycles in the Indian real estate sector. A positive confidence index level indicates increasing availability of funds, heightened construction activities and increasing demand. However, a drop in confidence level indicates a pessimistic view marked by a slowdown in demand and reluctance for any growth activity.

The quest for the ideal location and the right format is what every retailer always strives for, irrespective of trying times such as these. The subject has seen endless debates and continues to remain something of an enigma. The market is yet to throw up what we might term as a useful handbook for retailers planning on expansion or for entry into the Indian retail market.

In an attempt to address this need, Cushman & Wakefield Research in association with Technopak Advisors designed a model based on our experience and understanding of India's retail market and its dynamics. A survey was conducted among industry professionals across the country, whose ideas were sought and analyzed along important parameters such as, comfort and experience of shopping, affordability, conversion rate and its culmination as a social and community hub. In an effort to be comprehensive, these parameters were further classified and assigned specific weightages. The intent of the exercise was to identify the relative benefits of locating particular outlets in malls, main streets and/ or local residential markets. Some of the key observations (shown in the table below) indicate that each format enjoys specific locational preferences among Indian consumers.

MALLS

In our survey there were very few instances of malls scoring higher over main streets and local residential markets. One such instance was against the parameters that rated malls as a social and community hub. They also scored high on convenience and comfort of shopping. Shopping malls are attractive for various cultural and promotional events and as a hang out destination among the younger generations. They also offer the convenience of parking facilities and the ease of shopping, culminating into an indulgence based experience for the shopper over all. However, retailers felt that stores operating from malls faced high rentals in addition to establishment and maintenance costs. Also the conversion of footfalls in such stores is low compared to those in the main streets and the local residential markets.

CHALLENGES OF RETAILING FROM MALLS

- Availability at prime locations.
- Quality of development
- Lack of organized mall management
- Predominance of sale model
- High occupancy costs
- Delay in project delivery

Key takeaway: Apparels, footwear, food and beverages are some of the preferred categories to be in malls.

MAIN STREETS

The traditional market places in each city, small or big, have evolved with time and acquired the status of traditional main streets with their unique set of characteristics. These locations are preferred due to the wide assortment of retail services they offer, that helps to meet the daily need commodities and services. The main streets across the country have high footfalls due to their inherent uniqueness and also enjoy the highest share of conversion rates, resulting in revenues for the retailer. This in turn justifies the rentals and maintenance costs that one incurs. The frontage helps them to gain maximum visibility and provides an opportunity to reduce the marketing expense. However, it loses its sheen, compared to the malls, when it comes to customer focused shopping, promotional events, convenience and safety, largely because of parking and other infrastructure issues. This is mainly due to the diverse nature of the streets which prevent collective promotional events for all outlets in the vicinity. However, prominent main streets like Khan Market and Connaught Place in Delhi, Brigade Road in Bangalore and Lower Parel in Mumbai can be exceptions due to the homogeneity among the retailers.

CHALLENGES IN MAIN STREETS RETAILING

- Authorized commercial activity
- Old tenancy issues
- Lack of provisions & basic amenities
- Unplanned parking facilities
- Escalating rental rates
- Limited scope for resizing/ restructuring

Key takeaway: Consumer durables, home improvement, jewellery and watches are considered to be the chosen categories that are favourable in main streets. Additionally there are specialized main streets for furniture and furnishings in large urban agglomerations.

LOCAL MARKETS

When it comes to small, local markets that develop around residential pockets of our cities (whether planned or otherwise), one finds that such retail zones act as convenience centres for the resident consumers of those localities. In comparison to malls and main streets, such areas enjoy the advantage of faster evolution and their growth is often directly proportional to the development of the residential locations in the vicinity. The format, layout and assortment of stores are typically common to most such markets in almost every Indian city. Local grocers, stationers, fruits and vegetable vendors, laundry services, vending booths and small pharmacies are some of the key occupiers in such markets along with several local food and beverage outlets.

Over the years local branches of banks and ATMs have also started to consider these locations for their expansion along with various professionals and consultants. Local markets have, therefore, gained in prominence in most cities after having witnessed significant real estate churn-out. The low cost of operations at these locations is the biggest qualifier for retailer preference. The conversion rate of local markets is also fairly favourable. Consumers prefer to shop at their local markets because of accessibility, convenience (such as free home delivery services and easy credit facilities) and certain non-quantifiable factors such as long-term customer relationships born out of mutual trust and respect.

Key takeaway: Local residential markets are the most preferred destinations for food and grocery (F&G) and pharma retail.

Research Methodology

All the three retail destinations were evaluated along six broad criteria comprising convenience and comfort (from the consumer's point of view), retail assortment, affordability (from the retailer's

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perspective), social and community activities, conversion rate and overall shopping experience. Each category had several parameters for evaluation which were rated by respondents from the industry. There was a conscious effort to select practical parameters to ensure comprehensive coverage of all categories.

Parameters such as the presence of a controlled environment, parking facilities, accessibility, cluster of related retail services and the convergence of shopping and entertainment comprised the category of comfort and convenience. Malls, main streets and local markets were then evaluated against each of these parameters. Retail rentals along with overhead maintenance and marketing costs were the parameters evaluated for the sustainability of retail outlets in each of these three locations.

SURVEY ANALYSIS

Parameters	Malls	Main Streets	Local Markets
Convenience & Comfort	***	**	*
Retail Assortment	***	***	*
Affordability	*	**	***
Community & Social Hub	***	**	*
Conversion	*	***	**
Shopping Experience	***	***	*

Source: Cushman & Wakefield Research
*Note: *** most preferred option*

Though the experience of shopping is an intangible attribute, every format has its own advantages. For evaluating the same, we considered factors such as family outings, the ability of a location to meet an expected list of purchases and the opportunity for impulse buys and unique purchases.

The quantum of footfalls a particular format is able to attract and the subsequent conversion rate was the most imperative category for our study, since these factors are an indication of revenue generation and profitability of trade. A much lower weightage was, however, assigned to the category of community and social activity, which evaluated the location as a potential 'hang-out' destination and/or community hub.

Final Findings

Our analysis shows main streets as having scored the highest points, emerging as the most preferred retail location by both, consumers as well as brands/ retailers. In India, main streets are preferred 10% more than local markets and 17% better than malls.

This is a depiction of the present market scenario, where retailers and brands prefer to re-locate from malls to prominent main streets. This trend is likely to continue in the medium term as malls that have been planned and constructed in city centres have high input costs, which may prove to be unfavourable as far as affordability and sustainability are concerned.

Prominent main streets across the country will continue to see demand as there is a limited scope of fresh real estate supply in such locations. On the other hand, local markets are preferred because they offer affordable real estate options and an assured ROI. To perform better in the current real estate scenario, malls would have to put into practice, innovative approaches to attract customers, while focusing on retail segments and tenants best suited for the catchment, a mall primarily caters to. More on the subject is discussed later in the paper.

C&W Research findings fall in line with the realities on the street. Conversion rates in Indian malls continue to be lower than that of standalone and main street stores. In India, malls are yet to be viewed as places for 'serious shopping' and less of 'hang-outs' for window shoppers, impulse buyers and the cinema goers.

The current mall space availability in the top nine cities is estimated to be around 37 million sq.ft.

Moreover, malls in India continue to lose brands to main streets. As already discussed earlier, brands/retailers who have been grappling with issues of viability, visibility and branding are now quitting malls. This trend has added to the vacancy in new malls, which are already finding it difficult to get initial bookings from retailers.

PREFERRED LOCATIONS

Retail Segment	Malls	Main Streets	Local Markets
Food & Grocery (F&G)	*	**	***
Apparel & Footwear	***	**	*
Consumer Durables, CDIT/Mobile Stores	**	***	*
Jewellery & Timewear	**	***	*
Pharma Retail	*	**	***
Food & Beverages (F&B)	***	*	**

Source: Cushman & Wakefield Research
*Note: *** most preferred option*

Brands and retailers in India, as a result, prefer main street locations because of higher visibility, independent access and greater ease of operations in comparison to malls.

Sustainable Mall Space Requirement in Major Indian Cities

Till a couple of years back, the Indian organised retail market was dominated by a mix of apparel brands and regional retail chains. However, the sector today enjoys the presence of not just large Indian corporates, but also large global players like Metro AG, Wal-Mart, Debenhams, SPAR, etc. Despite the recent slowdown, Technopak estimates an investment of USD 25-30 billion in the Indian retail market over the next five to six years, with a majority (i.e. 94%) of this investment slated for the urban markets. Further, urban investments are slated across all retail formats, although the majority share is expected to be absorbed by supermarkets and hypermarkets.

While the recent economic slowdown is expected to slowdown the investment activity in the sector temporarily, it is expected that India's modern retail sector would be back on its growth trajectory in the next two to three quarters. Technopak expects demand for quality retail space to improve as retailers begin planning on expansions again.

Despite the recent talk of low occupancy in malls, Technopak and Cushman & Wakefield Research believe that there would be a substantial requirement for quality real estate in the next four to five years. Technopak along with Cushman & Wakefield Research undertook a comprehensive analysis to understand the future requirement of mall space in the top 8-10 cities[5] of the country and it is estimated that an additional 65-70 million sq.ft of mall space would be required in these top cities by the year 2013-2014.

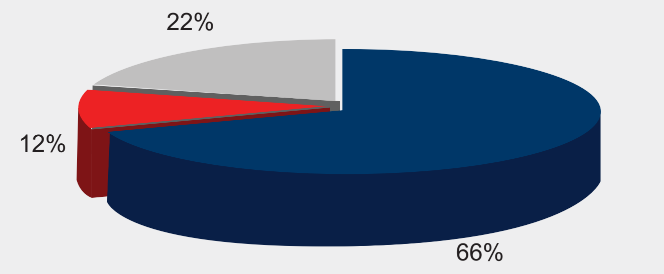
DISTRIBUTION OF EXISTING MALL SPACE

According to Technopak and Cushman & Wakefield Research, the current mall space availability in the top eight cities is estimated to be around 38 million sq.ft. The top two cities (Delhi NCR and Mumbai) currently account for 25 million sq.ft, i.e. nearly 66% of the total mall space available. The other two metro cities (Kolkata and Chennai) accounts for about 4 million sq.ft and rest 9 million sq.ft is distributed across Bangalore, Pune, Hyderabad and Ahmedabad.

In terms of the type of retail formats available, apparel exclusive brand outlets (EBOs), multiplexes and department stores occupy close to 60% of the total mall space in these cities at present. This is primarily due to the fact that most of the organised retailing in India started with apparel EBOs and department stores. Convenience led formats like supermarkets and pharmacy stores have limited presence in malls and occupy less than 10% of the total mall space for the top ten cities. Food courts, gaming zones and multiplexes are fast emerging as major

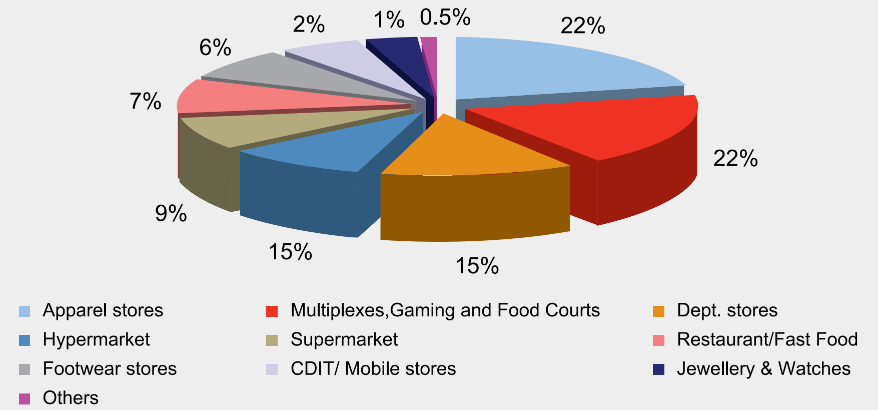
5: Top 10 cities: The NCR, Mumbai, Bangalore, Kolkata, Chennai, Hyderabad, Pune Ahmedabad, Jaipur and Ludhiana

CURRENT DISTRIBUTION OF MALL SPACE BY CITY TYPE



Source: Cushman & Wakefield Research

MALL SPACE DISTRIBUTION BY FORMAT



Source:Technopak Advisors Pvt Ltd

players in the retail real estate space. Not only do they occupy large spaces within a mall, but also draw significant footfalls and hence benefit vanilla retailers too.

Projections for Mall Space Requirements in India's Top Cities

The projection for mall space requirements in the next five years was calculated on the basis of the growth of organised retail, the growth of various formats and the possibilities of locating these formats within malls. As per Technopak Advisors, organised retail in India is estimated to reach USD 75 billion by 2013-2014 from the current market size of USD 17 billion.

Based on the growth of organised retail and the entry of new players by 2013-2014, there will be a likely requirement for 45 million sq.ft quality real estate in the top four cities of NCR, Mumbai, Kolkata and Chennai. Of the 45 million sq.ft. of expected demand, more than 24 million sq.ft is currently under various stages of development and is expected to get operational by 2011.

The next four cities comprising Bangalore, Pune, Hyderabad and Ahmedabad would require an additional 21 million sq.ft of sustainable mall space. It is expected that of the required space, nearly 13 million sq.ft would be operational by 2011.

Hypermarkets are expected to emerge as major players in the overall mall space demand. Large hypermarkets with sizes ranging from 75,000-100,000 sq.ft are expected to emerge as large players like the Future Group, Reliance Retail,

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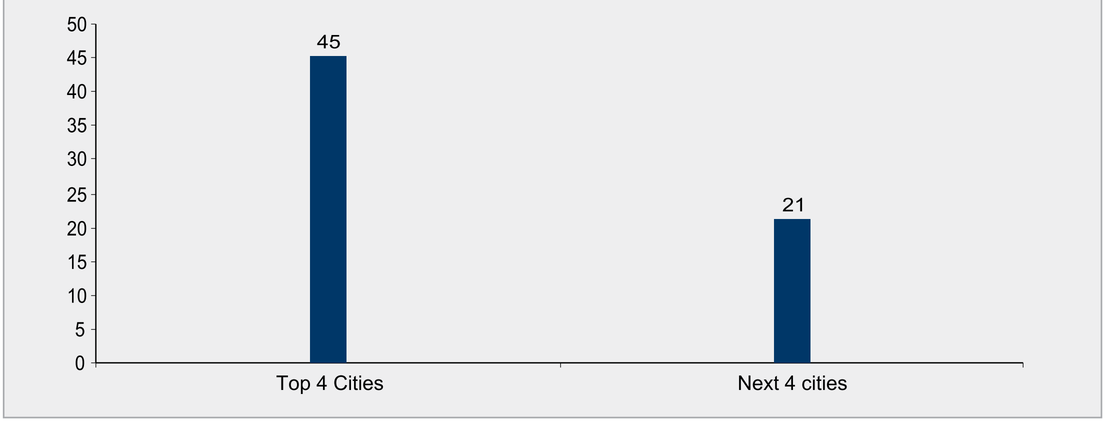
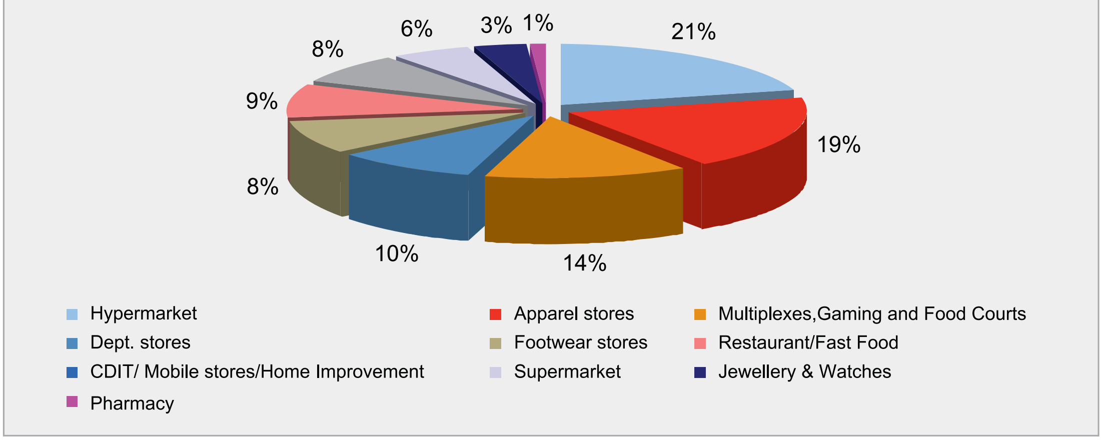
ADDITIONAL MALL SPACE REQUIREMENT BY 2013 - 2014



Source: Technopak Advisors Pvt Ltd and Cushman & Wakefield Research

BREAK UP OF MALL SPACE BY FORMAT BY 2013 - 2014



Source: Technopak Advisors Pvt Ltd

Trent and Aditya Birla Retail have extensive plans in the hypermarket segment. CDIT (consumer durables-IT) and home improvement is another category which is expected to see the growth of big box formats. Large players like Jumbo, X-Cite, Croma and E-Zone are planning to scale up their formats. Home Improvement retailing that predominantly comprises of furniture and furnishing retailers are also expected to take significant space in malls.

To Conclude

Mall development would be an important activity aiding the growth of the organised retail sector in India. Technopak and Cushman & Wakefield Research expect additional mall space requirement in the range of 65-70 million sq.ft in the top 10 cities over the next five years. Of this, nearly 40 million sq.ft of mall supply is already expected to be in the pipeline for completion by 2011. However, this time around, mall developers would need to focus to develop quality retail space with proper planning and zoning. Mall developers would also need to play an active role in the post-development phase through mall management, marketing and promotions to attract tenants, bring back consumer footfalls and healthy conversion rates.

CREATING SUCCESSFUL MALLS

The concept of a mall has evolved over a period of time and the idea is not just to build a concrete structure or have a number of retailers as tenants or even to command a large number of footfalls. Much more than this goes into building a successful mall -- and the challenge is to create a concept which can sustain operations over an extended period of time.

The development and life cycle of a mall project spans over three main stages:

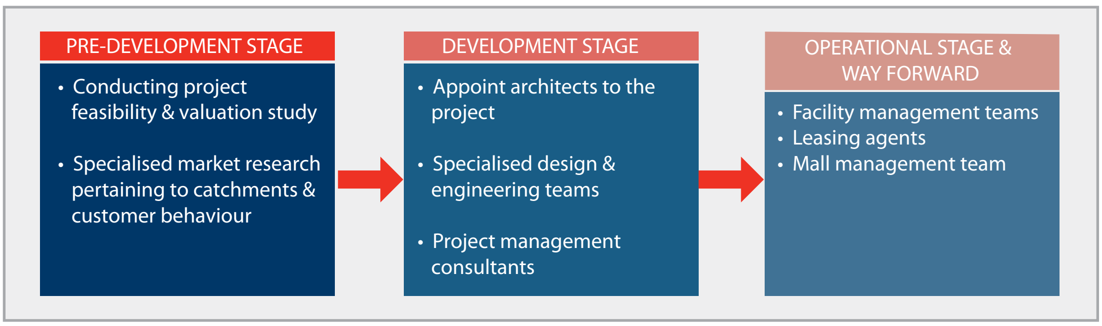
- The Pre-development Stage
- The Development Stage.
- The Operational Stage and ongoing Mall Marketing

All these stages in the life of a mall are crucial to its continued viability. Mall development also involves a range of specialised services and know-how across its different developmental stages. This is given in the table below.

Mall project development involves continued research from the conceptual level to the final delivery stage. It encompasses services of various verticals, involving key decisions across the board. Just building a structure with basic layouts to fit in stores does not serve the purpose of long term viability and operation. Each team or vertical involved in the project development must conform to the common goal.

Each stage has a number of critical determining decisions which require proper account of costs and benefits associated with the project, together with likely outcomes of the course of actions and alternatives. For creating a successful mall, a fool-proof structure needs to be created, taking into account the likely deviations, step-by-step appraisal of every course of action and proper evaluation of the project among others.

Creating a successful mall is all about getting it right from the very beginning. The arena today has become very challenging and complex and is meant for more serious players. With more and more financial institutions constricting funds in retail projects, the ball is no longer in the developers' court. The trend of developers embarking on a mall project whenever a parcel of land is available hardly yields any long-term results. Quick and easy exit strategies from investments in mall projects through individual retail unit sales, is also likely to take a back seat. More centralised operations will be favoured in the long-term for sustainability and efficient management. The emphasis will be more on a long-term perspective and any unrealistic valuations will be unlikely to have any takers as matching costs and revenue will take dominance. More extensive research and professional consulting regarding each aspect of mall operations is likely to gain prominence to ensure project sustainability. Continued focus on customer and retailers' needs, higher quality with an innovative approach to design as well as commercial viability of the project will pave the way forward.



Source: Cushman & Wakefield Research

MAIN CONSIDERATIONS FOR CREATING A SUCCESSFUL MALL: STAGE BY STAGE ANALYSIS

PRE DEVELOPMENT STAGE

Purpose of Mall Development
- Short term gain – Exit after completion of leasing
- Long term gain – Work to ensure long term viability

Location & Positioning
- Land cost and location – Decide on the size of the development
- Market condition
  - Study competition; differentiate on the concept
  - Make up for the deficiencies in the existing market

Consumer Base
- Income levels – Preliminary decision on the format of the mall
- Consumer needs – Decide on the product mix
- Shopping preferences – Determine the tenant mix
- Location preference

Funding
- Debt
- Equity
- Venture Capital

Social Repercussions
- Opposition from traditional markets - Initiate necessary remedial actions to reduce frictions
- Enhance socio-economic structure of the location- Plan for more interaction to achieve the influence.

DEVELOPMENT STAGE

Retail Design
- Appoint capable architects, engineering teams and project management consultants who have executed successful projects
- Decide on the positioning and design of the mall
- Determine the size and type of development
- Work on efficient layout and spaces
- Ensure sufficient and good parking spaces
- Devise easily accessible entry and exits
- Culminate international best practices with local flavour

Construction & Engineering
- Abide by the local construction guidelines pertaining to the area
- Build a structure with excellent services, lighting, air conditioning, etc.
- Meet all the necessary safety precautions
- Devise a cost effective, safe and efficient model

Decide on the anchor tenants and suit their specifications
- Involve leasing planner to decide retailers' requirements
- Devise appropriate tenant mix with respect to the design aspect

OPERATIONAL STAGE & WAY FORWARD

Leasing & Retail Planning
- Decide on the tenant mix
- Tenant location and store placement
- Work out feasible & practical rental models

Ensuring footfalls & conversions
- Ensure sustained interest through promotions & events
- Differentiate the model with key attractions
- Devise a strategy to covert each footfall into sales

Mall management & facility management
- Maintain good air-conditioning, clean toilets, sufficient parking spaces, etc
- Proper mall guidance
- Easy entry and exits

Continued research to ensure projects' sustainability in the long run
- Devise strategy for retailers to optimise their positioning
- Evaluate and improve the tenant and merchandise mix
- Attend to customers requirements
- Create and maintain a customer and retailer friendly environment
- Work on long term sustainability of design and concept

Source: Cushman & Wakefield Research

The ideal anchor retailer should be someone who drives consistent footfalls.

CONNOISSEURS' VOICE

"The right catchment area, the proper mall design, the right tenant mix, the right kind of promotional activities and proper mall management -- all contribute to creating a successful mall."

- Prajwal Shenava
Director, Business Development,
Indraprastha Shelters Pvt. Ltd.

Strategy for Mall Developers

The slowdown of the last few months has led to a virtual halt in terms of retail real estate development. Technopak Advisors and Cushman & Wakefield Research, however, believe that the overall economic conditions are expected to improve in the near term and this would result in resumption of expansion plans by retailers. Post slowdown, it is expected that retailers would be a lot more cautious in terms of their expansion and would evaluate the profitability of each location more thoroughly than ever before. Mall developers, therefore, need to be much more thorough in planning and operating malls today. They can no longer just develop a mall and not pay due attention to mall management. Mall developers would need to be creative while planning a mall as well as while transacting with retailer tenants.

Some of the key aspect for the success of a mall would include:

MALL PLANNING AND ZONING

Formulating the right tenant mix and its placement/ zoning in a mall would be the key to the success of a mall. Tenant mix refers to the combination of retail shops occupying space in a mall, while zoning refers to the division of mall space into zones for the placement of various retailers. The right tenant mix, consistency of their positioning and optimum retailer placement after a diligent zoning exercise can help retailers attract both serious and impulse consumers. The Forum in Koramangala, Bangalore, the Select Citywalk in Saket, Delhi NCR and the Inorbit Mall in Malad, Mumbai, are good examples of organised zoning. It is important to note that in the Indian context, as also in most matured markets, 'All Under One Roof' formats (wide range of offering) catering to multiple needs of the entire family (compared to specialty malls) have done well.

Landlords/ developers with vacant spaces may optimise profitability by matching tenant profile to catchments and consumer base. The strategy focuses on having tenants, who will attract customers and conversions. Besides working on tenant mix, matching of product mix also holds prominence. By stocking products as per the catchments requirements, a retailer can churn significant footfalls and conversions. Moreover, it is important to ensure that the catchments and consumers identify with the merchandise in order to allow efficient inventory turnover. If new or higher levels of product mix are to be introduced in a store or market, a weighted approach and steady introduction to avoid mismatch will be beneficial.

ANCHOR TENANT AND ITS SUSTAINABILITY

The selection of the right anchor tenant plays a crucial role in establishing a good tenant mix. Vanilla retailers cluster around the anchor and feed off the shopping traffic it generates. It is estimated that 70% of malls with good anchors are successful while 60% malls with no anchors fail. Sustainability of an anchor is also important - the retailer should be someone who drives consistent footfalls. Most of the current malls are now experimenting with two to three anchors. Mall developers would need to keep the prospective anchor tenants in mind while planning out a mall. It would be crucial for mall developers to identify tenants and other retailers based on the overall positioning of the mall.

SUSTAINABLE REVENUE MODEL

Presently most mall developers have a one-sided relationship with the retailer, where the retailer

As the number of malls increase, proper positioning and a unique value proposition will become exceptionally important.

pays the rent irrespective of the success of the mall. Given the current economic situation, however, this relationship was bound to change rapidly. More retailers are now ready to develop a long-term and success-based relationship with mall developers. As mentioned earlier, mall developers would now need to look beyond fixed rental models and develop innovative models where both retailers and developers have a win-win relationship.

Working out a pure revenue sharing model with a minimum guarantee is also at the disposal of retailers and developers. Though the model would mean forgoing of fixed revenues for the developers or landlords, in the long term perspective it is beneficial for all as it ensures guaranteed cash flows and continued retailer presence in malls. For retailers this translates into matching of rentals with revenue generation.

Though the landlord/ developer may be more receptive to leasing at higher rentals, it is important to have a long term view as to whether the tenant shelling out substantial rentals will be able to sustain and earn sufficient revenues or may exit in the short term. Leasing out to retailers who match the profile of the primary catchments/consumer-base is a much more sensible option. This would help in reducing the problems of retailer exits and vacant prime spaces, which apart from adding to costs also create an unfavourable image of a mall.

CREATING DIFFERENTIATION

One of the major shortages in the industry has been a lack of differentiated offerings. Most malls offer the same mix of shopping, food and entertainment options. As the number of malls increase, proper positioning and a unique value proposition will become exceptionally important. It would be impreative to choose a tenant mix that fits in with the positioning of the mall instead of accepting the first retailer that offers to lease space at the mall.

NEED FOR EFFECTIVE MALL MANAGEMENT

Mall management has been a major challenge for India's mall owners, who until recently had mostly developed properties and then sold it to investors who further leased it out to retailers. Effectively, such ownership and financing structures mean that most malls are owned neither by developers nor retailers, but piecemeal by individual financial investors. This resulted in unplanned and uncontrolled development of malls and led to an eventual loss of revenue and returns.

Introduction of major innovative changes to the concept or mall services or tenant profile is essential. But if the developer is poised with fragmented holdings, any such initiatives or issues may find resistance from the various stakeholders and lead to impairment of decision models. As such, centralised ownership is advocated for mall sustainability in the long run.

OPPORTUNITY AREAS & SURVIVAL STRATEGIES

A basic economic principle cites that every boom follows a recession. Though the period of recession may be extremely difficult, it is to a great extent, necessary to assess the system's inherent strengths and ability to bear assaults. It is more of a period characterised by challenges - be it working strategies for survival or learning from mistakes and changing adversity into opportunities.

The downturn has ultimately made developers, retailers and various other stakeholders re-think and re-work their line of operations. Up till the time recessionary conditions appeared, overwhelming valuations and projections dwelt in the market and today all stakeholders - developers, landlords, retailers or service providers involved in the retail space have geared up to fine-tune their strategies to survive.

In wake of the prevailing conditions, a couple of strategies available to developers/ landlords and/ or brands/retailers have been discussed below, in addition to strategies for mall developers as mentioned earlier.

CONTINUE RESEARCH & INNOVATE ON SERVICE LEVELS

Adopting and emphasising on continued research pertaining to customer preferences, behaviour and catchments development can pave the way for better understanding of the market and devise necessary models to innovate the line of operations. Further, in case of contingencies, necessary and timely remedial measures can be introduced to reduce the impact of any major chaos. Devising innovative service models and maintaining high standards both, at the developer/ landlord and retailer level, can go a long way in attracting and retaining customers; ultimately leading to overall success of the operations.

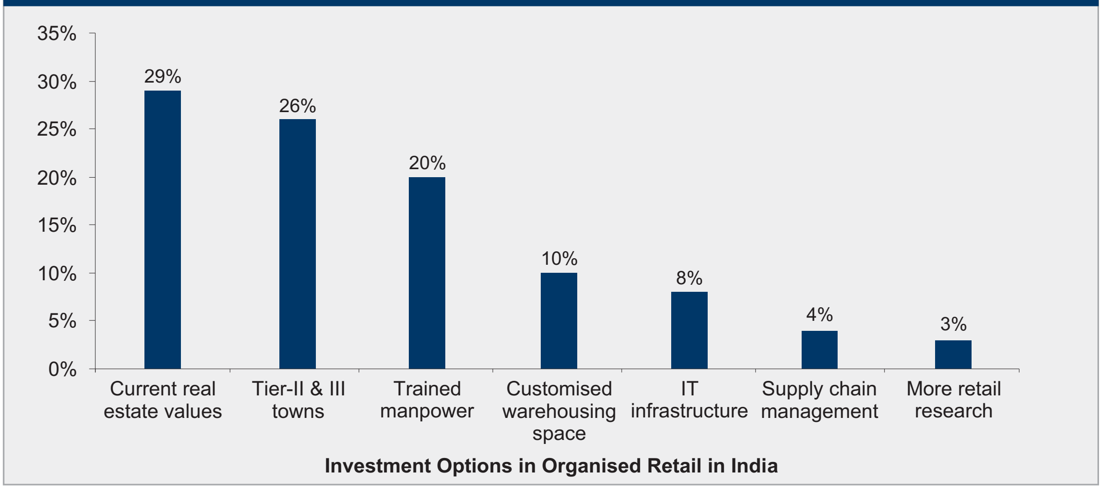
INVESTMENT OPTIONS FOR REVIVING ORGANISED RETAIL

C&W Research conducted a survey among the top tier of industry professionals on possible investment options for reviving the organised retail market in India. The dominant opinion seemed one of striking a balance between taking a long-term and sustainable approach to the retail business, while seeking immediate corrective actions. The poll was conducted on a respondent base of 43 experts from the retail industry, spread across Bangalore, Delhi, Kolkata and Mumbai. The largest number of respondents (29%) opted for taking advantage of the fall in real estate prices to acquire/ lease properties at plum locations that were best suited for their line of merchandise and retail format.

Interestingly, investing in tier-II and III locations, because of comparatively lower real estate and operational costs, came a close second with 26%. Investing in trained man power was also voted highly (20%) by most respondents. Customised warehousing space (10%) and investing in IT infrastructure (8%) were some of the other investment options chosen by respondents.

While all the other factors (other than the two top real estate-related options) were also deemed to be important, it was acknowledged by most that retail real estate rentals are still the biggest challenge for any retailer doing business in this country. Most respondents interviewed for the poll expressed the desire to consolidate operations by signing properties that would optimise their return on investments.

PREFERENCE FOR INVESTMENT



Source: Cushman & Wakefield Research

THE WAY AHEAD

Emerging Asian economies like India have a greater chance of recovering from the trough sooner, because of healthy domestic demand and the buffer offered by government stimulus packages to the real estate sector in general. As far as the retail real estate sector goes, what we are witnessing at present is a cyclical variation trend and not a structural bust. The latent sentiment within the retail industry at present is that although the sector has taken a hit in recent times, it will expand at a more calibrated pace, with growth being more conditioned and mature in comparison to the recent past.

Continuing the same strategy may be the riskiest approach.

At the end of the day, early entrants who had anchored themselves strongly have a better chance of tiding over recessionary waves. But the situation will be that much more difficult for those who had not paid as much attention to parameters of robust growth (as discussed above). In any case, the current slowdown is being treated by many as a blessing in disguise, which will force the industry to attune itself to consumer needs.

CONSOLIDATION

As a fall-out of the current upheaval in the sector, fly-by-night operators who had accumulated over the past five years of rapid expansion are likely to fade away. But at the same time, as mentioned earlier, the current scenario offers the best opportunity for large retail players to consolidate their position in the market. This expected strategy of mergers and acquisitions will most likely coincide with the next upswing in the market. Further, in all likelihood, this consolidating exercise might hit the market by 2011, which is also the period when retail market in the major cities are anticipated to witness the beginning of an uptrend in retail rentals. An interim period of relative inactivity (in terms of growth) and market stability is all the more necessary for a sector that has been growing tumultuously at nearly 35% per annum over the last five years. Market consolidation is, but a natural outcome of the prevailing circumstances.

As far as consolidation of operations goes, the process has already begun with major retail chains improving their IT infrastructure, implementing effective back-end operations, rationalising real-estate portfolios and pruning unnecessary expenses. The biggest cost area for retailers is real estate, followed by manpower and marketing expenses. With rentals already having gone into a correctional mode, retailer profit margins are likely to gain in due course of time. Multi-branding efforts and e-tailing (online marketing) are some tools to help reduce advertising and sales expenditure. Other strategies include the consolidation of multiple, smaller warehouse spaces into bigger and fewer warehouses. While some retailers are contemplating partnering with vendors to reduce inventory holding and distribution points, others are in talks with transport operators to configure route networks for optimising supply chain processes.

INNOVATION

Innovation isn't optional anymore. In a situation where all traditional exit routes are cut off, it is amazing what entrepreneurship and an innovative mindset can throw up. After cutting costs as much as possible, reducing manpower to smaller numbers and eliminating marginally successful product lines/ store locations, many retailers today find themselves in a situation where they must move forward because there's no place left for a safe retreat. But a few things to keep in mind include the fact that one is unlikely to innovate alone. It requires fresh ideas and perspectives from not only engaged and empowered team players, but also one's customer-base.

One of the biggest challenges of innovation is the risk involved. The common assumption underlying any aversion towards taking risks is that it is less risky to continue doing whatever is being done. However, it takes only a short assessment of the current environment to see that doing the same things may be the riskiest approach since changing times call for changing strategies. Innovation may just be the safest bet under the circumstances.

A few innovative trends and ideas for the sector are discussed below:

Short-Term Mall Space for Start-ups & Small Entrepreneurs

Late last year, Urban Retail's Oakland Mall in Troy, USA, began offering small start-ups and entrepreneurs special leasing rates that made it easier for them to test the waters among shoppers at the mall without entering into a long-term contract[6]. Twelve kiosks had been specifically placed throughout the mall and these could be leased for as little as USD 300 for a two-day weekend special package. The flexible leasing terms were part of an on-going programme aimed at helping small entrepreneurs with seasonal offerings or for those who wanted to test out a new product or trend. Five of the mall's 72-foot kiosks --which included display cases, counters and shelves -- had been leased by February 2009.

The Oakland Mall (www.oaklandmall.com) clearly stands to benefit from such an effort by attracting new businesses and shoppers even as the economy struggles, but it's also a sort of silver lining for start-ups and small entrepreneurs. Maybe developers and mall management consultancies in India would do well to take a few similar ideas and apply them in the Indian context.

Retail Space Helps Brands Collaborate

Named for its address on Hollywood's Cahuenga Boulevard, Space 15 Twenty is designed to create opportunities for Urban Outfitters to collaborate with other creative brands[7]. Multiple stores make up the space in addition to Urban Outfitters' own, and they host a rotating selection of complementary brands. Typical tenants include street wear vendor Alife, vintage-focused What Comes Around Goes Around, book purveyor Hennessey & Ingalls, Brooklyn designer Samantha Pleet and the Philadelphia-based eatery, Snack Bar. A courtyard leads from each store to an outdoor performance space and adjoining gallery, both of which feature a rotating cast of local musicians and artists. The 11,000 sq.ft Urban Outfitters store itself features collections of a new designer every few months.

Part retail, part eatery, gallery, entertainment and gathering place, Space 15 Twenty (www.space15twenty.com) offers a multidimensional experience that's a far cry from the traditional mall and food court -- and likely to be much more tempting to experience-seeking consumers.

Pop-Up Retail

If new products can come and go, so can stores that display them. From gallery-like shopping spaces with one-off exhibitions to mobile units bringing inner city-chic to rural areas, trend watchers have noticed an increase in temporary retail manifestations around the world.

Trend watchers have dubbed this trend as 'Pop-Up Retail', after their tendency to pop up unannounced, quickly draw in the crowds and then disappear or morph into something else, adding a fresh feel, exclusivity and surprise that galleries and theatres have been using for years. Some examples include:

Target: This US-based discount franchise that works with (amongst others) fashion designer Isaac Mizrahi, opened up a temporary 1,500 sq.ft store in Rockefeller Center to celebrate Mizrahi's affordable new women's clothing line. The glossy store stayed open barely for a month. Last year, Target actually housed a temporary floating store on the Hudson River for the Christmas season.

Vacant: This is an exclusive retail concept and exhibition store that opens for one month only in empty spaces in major cities, including New York, London, Tokyo,

6: trendwatching.com and springwise.com
7: trendwatching.com and springwise.com

Shanghai, Paris, Berlin, Stockholm and Los Angeles, showcasing a range of strictly limited edition products from established brands and emerging designers. Limited quantities are available and some products on display are not for sale. New store locations are announced by email to Vacant Club members only moments before opening.

London Fashion Bus: The London Fashion Bus was launched a few years ago. It is a touring showroom, stocking over 1,400 pieces of work from 40 designers. The refitted double-decker bus brings unique designer pieces to areas throughout Britain that don't have London's high fashion boutiques and outlets, while giving young designers a wider audience. Consumers can find tour dates and locations on their website.

The pop-up retail concept fits right in with all stages of the economy, including a recessionary one. It's about surprising consumers with temporary 'performances', that guarantee exclusivity because of the limited time span. From individual designers teaming up, to real estate agents making better use of vacant properties, to big brands looking to add a bit of freshness to their otherwise fixed locations and massive flagship stores, pop-up retail could be an answer to bring to bring about some freshness in the retailing process.

Innovative Customer Relation Management (CRM) Model

Retailers in India, today, seriously look to connect with and retain old customers. The long debated concept of effective CRM has finally arrived and retailers have begun to increasingly innovate on their loyalty programmes to keep up with the times. Certain segments, such as fashion and lifestyle, witnessed substantial revenue falls over the last few quarters; many retailers like Indus League, Arvind Brands and the Landmark Group began to re-work their loyalty programmes by associating them more closely with their offerings. As part of this latest initiative, loyalty members are being offered a shared programme across a larger number of segments/categories under a retailer's umbrella, which enables the consumer to access merchandise across a group's diverse retail portfolio. Also, regular loyalty programmes like discounts and special previews have become more customised to suit a shopper's needs better. Besides fashion retailers, consumer durable retailers (such as Reliance Digital) also work to extend additional facilities to its loyalty programmes by integrating store networks and enabling customers to redeem their loyalty points across a number of related stores.

Supply Chain Management (SCM) Re-modelling

Another notable development in India has been the consolidation and sharing of back end resources by various retailers. Supply chain costs typically constitute a significant share in the retailer's operational budget. With many retailers (especially in the F&G segment) having already invested heavily in getting their back-end in place, the slowdown has hit them hard, making the case for shared resources, stronger. F&G retailers in particular have already begun to form a coalition, by aligning their sourcing operations, logistics and warehouse requirements, among others.

Flea Markets Going Main Stream

Yet another innovative retail development in the country has been the emergence of flea markets in organised developments like malls. A case in point is the Select City Walk at Saket, New Delhi, where a flea market is put up every Wednesday evening, with temporary structures like basic kiosks and/or tables provided to client retailers. Local retailers/ exhibitors/ small-time entrepreneurs choose to set up their stalls on a weekly/ fortnightly/ bi-monthly basis, as per individual preferences, with charges getting more affordable with a bulk booking order.

Though this concept has already been in existence in the unorganised space (village fairs and haats), this is probably the first time that a flea market concept has found place in the organised space market. Though a flea market is typically a space to sell second hand goods and/ or inexpensive items, in this case retailers and, even boutiques and designer houses offer their merchandise at discounted rates.

GREEN RETAIL

This is an awareness that is slowly but surely catching on with Indian consumers, including children. Technopak's Social Values Monitor is a large-scale consumer research study on the values of consumers across town classes and socio-economic classes. The study showed that concern for the environment is among the top five values held by consumers across SEC A and B[8]. It has been noticed that environmental consciousness is gradually evolving from being just an attitude to becoming a decision making variable in the purchase process of a number of retail categories among Indian shoppers. An analysis by Technopak also forecasts that a decade later, concern for the environment will move up to becoming part of the top three values held by consumers across SEC A and B.

But many have already begun to adapt to a 'green' change, such as the InOrbit and Oberoi malls in Mumbai; organisations such as the Bangalore-based green building technology company, Biodiversity Conservation India (BCIL), have also been helping to spread the awareness of 'greening' malls. Though the process of greening a mall is initially cost intensive, it is definitely more cost effective in the long run. One also has the choice of implementing small changes that are extremely effective on a long-term basis, such as effectively regulating the usage of air conditioning in malls that might save up to Rs.10,000/ hour on energy bills alone. Such small practices are not only cost-saving, but also environmentally friendly.

Some of the other measures include controlled lighting and heating, sewage treatment plants, using underground tanks to collect rainwater for air conditioning and covering the roof with heat-proof materials. The Inorbit Mall at Vashi , in Mumbai for instance, has special solar panels built-in for external lighting of outdoor hoardings and parking lots. In the long run the mall is likely to save 25-30% of their energy bills (INR 3.5 - 4 million/ month) in this way, despite being expensive initially. The mall installed a sewage treatment plant (STP) where waste water is recycled and used for horticulture and cleaning purposes.

The Oberoi Mall in Mumbai also installed an STP that treats 300 cubic metres of water every day. There are two rain water harvesting plants, which collect and recycle rainwater within the mall as well. The mall's polycarbonate roofing ensures day lighting for the atrium, illuminating most of the mall's interiors.

RURAL RETAIL

The rural market in India has great potential. Even after all these years, a basic understanding of the rural consumer and distribution channels still remain some of the biggest challenges of working in rural India. When compared to urban India's consumerist society, the rural consumer will always remain driven by his needs first and will therefore be cost conscious and thrifty in his spending habits. Decision-making is still conscious and deliberated among the rural community, but nevertheless, our rural markets, exhibit a growth faster than its urban counterparts in certain product categories. According to the National Council of Applied Economic Research (NCAER), the rural market accounts for:

- 53% of FMCG sales
- 59%of consumer durables sales and
- 100% of agricultural product sales

Another reason to turn towards India's villages is the fact that the current slowdown has so far not had any noticeable impact on the rural economy. A recent study conducted for the Rural Marketing Association of India (RMAI)[9], reveals that rural incomes are on the rise, driven

8: Socio Economic Classification (SEC) is a common categorisation (ratified by the Market Research Society of India (MRSI) to describe Indian consumers on the basis of two parameters: the occupation and the education of the chief wage earner of the household. The SEC A and B categories refer to the top strata of India's consuming classes.
9: www.rmaai.org and www.rmaiblog.blogspot.com

largely by continuous growth in agriculture for four consecutive years.

A record harvest of 230 million tonnes of food grains last year coupled with 40% increase in the minimum support price of wheat and paddy over a two-year period resulted in rising farmer incomes. The rural economy got a further boost with the farmer loan waiver of INR 716,000 million, wage payout of INR 300,000 million under the National Employment Guarantee Act and the ambitious Bharat Nirman Programme with an outlay of INR 1,800,000 million for improving rural infrastructure.

The present crisis may be taken up in a positive spirit as a learning experience for the sector to grow stronger, more disciplined and organised.

Employment opportunities and income streams have grown steadily with consistent demand for goods and services in these regions. Since the percentage of salaried workers in rural India is a third of the urban and that too mostly in Government service, there has been negligible impact of job layoffs. The study also found that as rural consumers save with post offices or bank fixed deposits, their wealth was not eroded, unlike their urban counterparts who lost huge sums of money in the stock market.

Higher disposable surplus among consumers in these markets led to smart buying at rock bottom prices and relatively early planned purchases in many categories, such as housing construction materials, apparels for festive occasions and consumer durables. The FMCG sector continued to grow at 20% (urban growth stood at 17%), consumer durables at around 15% (with an upgrade from regular to flat screen colour TVs and a sharp rise in DVD sales and DTH connections) as well as telecom at over 30% in the period 2008-2009.

Retail in India is on the Right Path

The current slowdown in mall construction is expected to keep the supply low over the years 2009-2011 and may help in maintaining a healthier supply to demand equation in the retail real estate segment. Many believe that the retail industry, per se, has not gone wrong, but that it is more a problem of speed since the sector was on an overdrive over the last couple of years.

It would seem that the high speed of evolution robbed the sector of its natural flexibility.

CONNOISSEURS' VOICE

"In my opinion there is nothing 'India specific' that has gone wrong. The same mistakes were also seen in other emerging markets during similar development cycles. The same excesses in property as well as equity have happened in similar market conditions, with people starting to believe that the growth will last forever. As we all know, bubbles pop and prices rationalise. This is not necessarily bad as it is brings the economy back on a sustainable growth path. The biggest drawback, however, was that the sector in India had failed to learn from the mistakes that other emerging markets had paid for earlier."

- Thorsten Allenstein
Managing Director,
Triumph International (India) Pvt Ltd

Modern retailing in India continues to be on the right path, but the channels need to improvise themselves.

The long-term India story remains intact because the fundamental growth drivers of the economy continue to exist. The present crisis may be taken up in a positive spirit as a learning experience for the sector to grow stronger, more disciplined and organised at the end of the day. The turmoil will basically impact small ticket players in the market, who have left or are likely to exit the scene; although the long-term players and the basic consumer demand is likely to remain intact.

Going Forward

Organised retail today holds only a fraction (6%) of the market share potential in India. The problem is not that consumers and/ or investors have lost confidence in the sector, but that the organised market jumped from zero to 6% share in a very short period of time, which ate into quality growth. What the sector witnessed in the last few years was a volume, not a value-driven growth. Optimists in the industry continue to foresee a mid-term share of 15-20% for organised retail in India.

In a highly synchronised global recession scenario, such as the current one we're experiencing, the normal time span taken for any market to bounce back to an uptrend is typically about six to seven quarters after the GDP drops to its worst Y-o-Y growth rate. Cushman & Wakefield Research estimates the Indian realty market to plateau around early 2010. In all probability, retail markets in cities like Delhi NCR and Mumbai are likely to witness the first rental upswings around mid-2011.

The retail landscape in India is expected to undergo a number of key changes in the coming years. It is expected to become:

- More complex: By expanding into new categories and new formats, as well as by reaching out to new customers with fresh services.
- More competitive: With industry consolidation and growing market saturation, anticipated trends include intense price competition with increased point of sale (POS) promotional sales activities.
- More sophisticated: With enhanced consumer insight and further category segmentation, there will be a rising requirement for retail research and analytics, apart from the need for the latest in retail technology.

As far as retail real estate is concerned, the evolutionary stages will continue to go through various developments. The market has already moved on from a purely sale model, to the lease/license model. The current downturn has seen the rise of the minimum guarantee and revenue share model between retailers and developers (as discussed in detail earlier). Instances of retailers and developers already working on this emergent model would include Select City Walk (Saket), DLF Courtyard (Saket) and Ambience Mall (Gurgaon) in the NCR, InOrbit Mall (Vashi) in Mumbai, the Forum Value Mall in Bangalore, Express Avenue in Chennai and the Forum Courtyard in Kolkata, among others. Going ahead, the industry anticipates the growth of a risk share model as the next likely level of evolution. Within this stage of a retailer/developer relationship, both will perhaps create an agreement for working together right from the design to the operations stage -- sharing risks at each step.

To Conclude

India's growth story continues to look optimistic despite the slowdown, primarily because much of its fundamental growth drivers remain intact. Medium and long term prospects for the economy too continue to be optimistic with steady domestic consumption. While there may have been a deceleration in urban consumption, rural consumption remains strong.

There has also been significant pan India expansion of certain branded outlets across formats, albeit at a much slower pace than the last couple of years. Major retailers, who had initially focused on the country's top metropolitan centres, have gradually moved into smaller towns and even into rural India. Many of them have expanded into multiple formats; cases in point include the Future Group which now operates more than 16 formats and the Kolkata-based RPG Group which runs more than 10 formats. This expansion has been unprecedented in most developing countries, especially in a difficult macro-economic environment. Modern Indian retail is currently experiencing a steep learning curve and the current turbulence is not entirely unexpected or even undesirable.

To tide through these difficult times, large global brands and retailers, for their part, would need to localise their operations to a very great degree -- borrowing a page or two, for instance, from the operations manual of a McDonald's or KFC to sustain their businesses on Indian shores. Local retail players too would have to gear up for more intense competition to survive the changing dynamics of an emerging marketplace, the upside of which might just see them emerging (or remaining) as the market leaders. Interestingly, recent announcements indicate another global

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retailer who has made its India entry through the cash and carry format -- the third for the country. (Booker India Pvt Ltd, a wholly owned subsidiary of the UK-based cash and carry operator Booker Group Plc, has launched its first India outlet in Mumbai.) It would seem that the dark clouds across the horizon may very well have begun to pass, hopefully leaving behind nothing but lessons learnt the hard way.

ABOUT THE RETAIL SERVICES GROUP

At the core of Cushman & Wakefield Retail Services is our thorough understanding of the retailing processes, logistic needs and the dynamics of the retail industry in India. Our experts understand that retailing is much more than shops or shopping malls; it is the whole experience that culminates in the sale of a product or service to a consumer, including administration, design, distribution, marketing/ positioning, planning, storage and real estate. With over 100 dedicated retail professionals across Asia, we advice on every stage of the project life cycle: from initial research and development consultancy to leasing, management as well as investment. Our teams are equipped and experienced to counsel as well as execute specialised and sophisticated retail requirements encompassing retail project management, mall management and mall marketing apart from retail consulting and brokerage, offering you tailor-made focussed solutions.

Our broad scope of service includes:

- Real Estate Advisory
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- Mall Marketing
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- Mall Management

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Through the delivery of timely, accurate, high quality research reports on the leading trends, markets and business issues of the day, we aim to assist our clients in making pertinent and competitive property decisions.

In addition to producing regular reports such as global rankings and local quarterly updates available on a regular basis, Cushman & Wakefield also provides customized studies to meet specific information needs of owners, occupiers and investors.

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