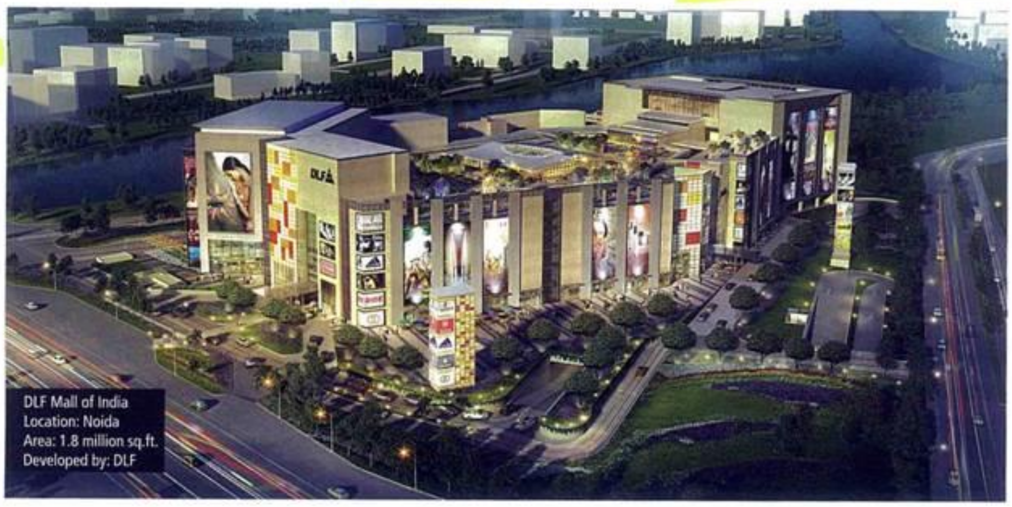
INDUSTRY SPEAK

There are a number of mall developers leading the league with their successful big shopping centres across India and some others are gearing up to be a part of the group soon. While some developers give a "Thumb's up!" to this latest trend, few others seem conspicuous about its future. One of the supporters of this trend Arif Sheikh, CEO & ED, EWDL, says: "I support this unprecedented wave of million square feet mall as shoppers of this age with multiple demands in limited time carefully choreograph their shopping trips. Million square feet size and prominence means that, for good or ill, these malls have a significant impact on industry and its character. There is growing acceptance that as long as big malls are well designed, made, leased and suitably located, they can accelerate retail growth in India." Agreeing with him, Pushpa Bector, Senior VP- Leasing & Mall Head, DLF Mall of India (MOI) quips: "I believe the concept of million square feet malls allows to create a world class shopping and entertainment destination and thus is being adopted by developers. It also helps in creating a holistic tenant mix in various formats and categories and thus is gaining popularity amongst the developers. I am confident that mall development would continue and the attempt by every developer would be to create something distinct and innovative."

According to Prodipta Sen, Executive Director, Alpha G:Corp: "As we know, the bigger the mall, the greater the flexibility to cater to different segments of the target audience. The trend of million square feet malls or 'mega city centres' has been stronger recently since there are huge segments of untapped space, especially in tier 2 and 3 cities and towns with large scope and potential for expansion." Paresh Mishra, CEO-Malls, Runwal Group, feels that the trend is catching up with each and every developer irrespective of the town or city but cautions that to have a large mall is just not the end; it is a unique challenge to operate such a portfolio with opportunities to both clientele i.e. B2B and B2C.



DLF Mall of India
Location: Noida
Area: 1.8 million sq.ft.
Developed by: DLF

" I would prefer that a developer optimises the opportunity to develop a world class shopping centre with ample parking space, services, best of the utilities to derive efficiencies in HV Ac, energy, and water conservation which will help lower the common area maintenance (CAM) charges that is a huge deciding component for a retailer to do business. The developer should work on fine finishing. A correct and pleasant overall ambience of mall with mix of services at reach would be the deciding factor on customer loyalty," Mishra says.

Surender Pal, Director Leasing and CEO, Phoenix Group, further adds: "Creating any shopping centre needs tremendous hard work, requiring a scientific approach and blend of the art of retail to make it ready. Firstly the location, the land parcel, then the right brand positioning, strategy and then design. This is followed by right brand-mix and efficient management. The investment runs into hundreds and sometimes even thousands of crores. The time to produce a mall can be anything between three and seven years. With this background, any developer will be naturally prudent and will approach the project in a professional manner. The path of 'lets make the biggest mall' will hardly lead to a sustainable property."

According to him, professional approach of carrying out market research, understanding needs of the emerging market and ensuring feasibility of the "right size" of mall are some of the logical solutions to the problem."If the outcome of such study indicates necessity of a 'category killer', it is still a scientific conclusion. This is the approach we at Phoenix have adopted. Also any mall is nothing but infrastructure. It is the retailers in the malls who will make it a success. Sheer size does not necessarily mean a successful mall. One must have the knowledge about to the market and how to manage the property well," he says.

Citing this trend positive in the long run, Sheikh says: "Million square feet malls are signs of growing economic development and prosperity and the desire of the investor and builders to invest in these mega projects - which means more choice for retailers, shoppers and increasing employment opportunities for catchment population. A large mall is an indicator that the industry is moving towards the future. However, it should be kept in mind that large malls require plenty of investment, more time and labour to construct, lease and operate but they also have long- and short-term advantages. They should be mixed-use, but retail lead."

SUSTAINABILTY

"More the merrier" is the concept which will work in the retail real estate sector, as bigger malls can offer wider offerings and hence sustain for a longer period," says Susil S Dungarwal, Chief Mall Mechanic, Beyond Squarefeet Advisory. "Big mall becomes 'auto-sustainable' if planned properly and managed well," he adds. Sheikh states: "Sustaining a successful big retail development in India requires a high level of expertise, proactive management, and innovation. In the near term, the robust consumer demand will mask the lack of experience of these new million square feet plus developments. Over the longer term, however, it will be important for even developer of smaller malls to step up to the game through targeted product offerings and active tenant management to compete effectively with the mega malls and sustain their long-term growth."

Manmohan Bagree, VP, South City Projects, while describing these mega developments as destination malls quips: "Definitely every city needs couple of destination malls based on geographical base of the particular city but it cannot be a trend to develop destination malls by every second developer. Constructing a structure is one thing and converting it into a mall is another and a bigger challenge. Thus, if it becomes a trend by every second developer, it will not be a healthy sign." According to JP Biswas, Head Retail, L&T Realty, it would be too general a statement to say that every one wants to do part of the country is slowly embracing the mall culture and one could be seeing development there as well. With India's growing per capita income and a rising middle class, the retail sector has the potential to be the real growth engine of the country's economy. While demand for a superior shopping experience is evident in the metropolitan cities, the tier 2 and 3 towns are also rapidly acclimatising to the changing landscape of the Indian retail market. Growing consumerism, changes in consumers' tastes and preferences, and heightened brand consciousness have been fast replacing traditional mom-and-pop stores with organised retail malls that house lifestyle and luxury brands from national and international retailers. Sen adds: "The trend of million square

a million square feet mall because professional mall development companies would do the required feasibility studies and catchment analyses to arrive at the right size of a proposed mall. "As long as the planning activities are undertaken diligently, there is no reason why larger malls will not be sustainable. The country's economy will surely revive sufficiently in due course, unless something catastrophical happens," he further adds.

Bector too feels that the current economic scenario has had some adverse effects on the industry. "Slowing economic growth and a weak consumer sentiment have got developers to slow down the expansion and high inflation has further hindered the consumer spending of the middle class and in turn has affected the expansion of mall business. We hope that the opening of the FDI sector would help step up the expansion in the retail real estate development," she says. Sen further talks about the same: "Considering the present economic condition of the country, the sustainability of this new trend of million square feet malls will mainly depend upon the retailers' strategy to meet the aspirations of their end users. The retailers need to adjust their brand and product mix based on thorough research findings and should have merchandise according to their consumers' needs, demographics, aspirations, and catchment areas. This effort should be augmented by immaculate zoning and utilisation of all potential avenues to generate genuine customer feedback ensuring lasting success. The criteria for long-term sustainability are possible as long as we cater to all the expectations and needs of all segments."

Amidst this economic slowdown, Anshuman Magazine, CMD, CBRE South Asia, still seems hopeful about the future. "In spite of the current economic slowdown, India is considered to be one of the most attractive destinations for international retailers. This is because of various factors such as the growing number of brand-savvy middle class, rising disposable incomes and increased spending on international quality goods and services that are presently underprovided. These factors are indicating an increase in demand for good quality retail space." Pal too feels that million square feet malls, regardless of their size, will be sustainable. "The forecast for the GDP growth for 2013-14 is 6.9 percent and many believe that the GDP will grow in the excess of 7 percent thereafter. Retail accounts for 60 percent of this growth. Out of the retail pie, organised retail is just 7 percent. So you see, when we discuss retail, sometimes we tend not to see the bigger picture and only look at 7 percent of the pie which is in malls. The organised retail sector is expected to grow 25-30 percent CAGR. The figures are promising and the sentiment is right. To provide a sustainable channel for this growth, there must be logistics and support of the government policies. A quality supply of malls therefore will be certainly sustainable."

Looking ahead, the main pitfall may come from large number of proposals for big malls in smaller cities and the suburbs where every one building a million square feet mall is an immense financial and logistical undertaking. Sheikh feels that some of these places simply do not generate sales or rental value to support the quality of design, materials and brands needed for such huge malls. "This makes rigorous assessment of the proposals of big malls vital. Demographic and economic pressures in India and the core cities are likely to result in more proposals for big malls," he says. But Sheikh also mentions that not every scheme that gains permission will be built. If builder, retail community, and local authorities put in place robust financial module, and take advantage of the opportunity available to them, the big malls that do get built should be well designed assets for their city and will not only be sustainable but will also add value to the region. Kumar finally adds: "Bigger malls can sustain if they are fewer in number. If there are too many malls of large size, either the occupancy rate or rent realisation will be low."

IMPACT ON THE INDUSTRY

The industry experts unanimously feel that the long-term impact of million square feet malls for the retail real estate market will mature and India will witness the emergence of quality retail spaces. Bector feels that the impact would be positive at multiple levels such as the developers would work towards creating and conceptualising world class destinations, the consumer would get spoilt with choice due to numerous options being created for shopping, food and entertainment and lastly it would help in creating employment. She adds that to create, manage and sustain a world class destination, one would need immense talent and the trend of million square feet malls would only contribute to empowering the youth by creating ample employment opportunities.

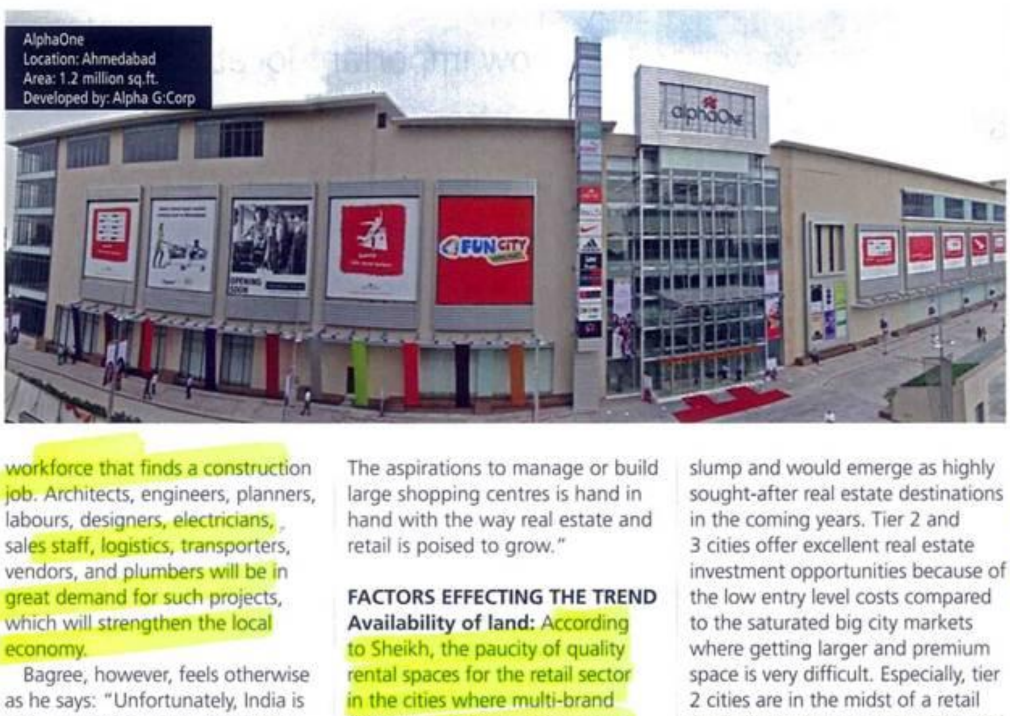
According to Sen, retailing in India is poised for significant growth with the opening of FDI in single- and multi-brand, changing demographics, and improvement in the quality of life. "Ever-growing middle and upper middle classes with increasing spending powers, together with rise of domestic and international brands, have also boosted India's retail growth over the last few years. The remarkable growth in metros or tier1 cities has instilled confidence in local and international players to expand into newer markets of tier 2 cities and thus capture a larger base of consumers with their million square feet malls," he states.

Sheikh insists that the trend is not only going to affect the developers but will impact all stake holders including shoppers, retailers, and government. For shoppers in the past years, a trip to the mall even for some basic shopping often meant a serious commitment of time because one would often be stuck in traffic and have to search for a parking space and then face a lack of choice in terms of both products and brands in small malls. According to Sheikh, this new retail space in million square feet malls will definitely address these issues. "For developers better mass transit infrastructure, particularly the metro/ BRTs will make it much easier to get around the city. Higher density and more up-market residential developments across the city will create new catchments supporting the viability of big malls. Finally, the competition among retailers, from both established local and new international brands, will result in more space being demanded to support their expansion and what better place than million square feet malls," he feels.

As large project requires plenty of labour in the planning, construction at completion stages for government, this opens avenues for employment that the inhabitants of that area can use to their advantage. The mall industry asserts that working in shopping centre developments is full-time work. This can mean both short-term and long-term business benefits to the workforce that finds a construction job. Architects, engineers, planners, labours, designers, electricians, sales staff, logistics, transporters, vendors, and plumbers will be in great demand for such projects, which will strengthen the local economy.

Bagree, however, feels otherwise as he says: "Unfortunately, India is not a tourist country unlike Dubai or Singapore. Thus, the viability and sustainability for brands would be a challenge and also a big task for the developers to lease out the entire property, in this case a million square feet mall as we still have only handful of brands available in the country." Avneet Soni, President, Omaxe, who also does not seem very supportive of the trend thinks that real estate sector is already reeling under over supply in the commercial space. So, considering this, developers have been cautious in the way they want this segment to be developed, leased or sold.

Pal on the contrary says: "The government has taken initiatives such as relaxation in the ECB norms and approval of FDI in multi-brand retail. All this including other policy level reforms is likely to result in gradual improvements in macro-economic conditions in the coming few months. This is coupled with a slow and gradual economic recovery in the Eurozone which is likely to result into a revival in demand in the real estate market. This positive background is making a very conducive environment for malls on the rise. The aspirations to manage or build large shopping centres is hand in hand with the way real estate and retail is poised to grow."



AlphaOne
Location: Ahmedabad
Area: 1.2 million sq.ft.
Developed by: Alpha G:Corp

FACTORS EFFECTING THE TREND

Availability of land: According to Sheikh, the paucity of quality rental spaces for the retail sector in the cities where multi-brand foreign retailers are expected to enter the market could trigger demand for new projects and large parcel of land. In his opinion, since most of the malls will not be city centric specially with metros in place, getting right land in suburbs would not be an issue. However, prime retail is more vulnerable to consumer sentiment and if developer choose to make mega mall at a prime location, it may grow at below trend in terms of bottom line due to higher land cost. "I favour suburban mega mall with a strong residential catchment which is more localised and less dependent on non-discretionary spending," he says.

Mishra feels that land availability is a crunch in tier 1 cities. The cost of the project along with the land price is unreachable for developers. However, in tier 2 and 3 towns, there are still exciting development opportunities; the only limitation been the need for suitable catchment for growth of the business. Regarding the emergence of tier 2 cities as the hotspot destination for million square feet malls, Sen predicts: "Tier 2 cities of India will continue to be the hotspot for real estate investors despite the slump and would emerge as highly sought-after real estate destinations in the coming years. Tier 2 and 3 cities offer excellent real estate investment opportunities because of the low entry level costs compared to the saturated big city markets where getting larger and premium space is very difficult. Especially, tier 2 cities are in the midst of a retail revolution, where supermarkets and hypermarkets are booming, offering a wide array of choices and cool comfort for shopping. For retailers, doing business here means lower occupancy and other sundry costs."

For Magazine, land is a major source of concern for retail real estate developers in India. According to him, lack of availability of suitable land parcels, high land and rental costs, absence of clear land titles, lengthy conversion process and approvals are common deterrents for developers to focus on large-scale construction of retail properties. As a result, only a handful of million square feet malls have managed to come up in suburban locations of prominent cities such as Delhi and Mumbai. He warns that the scenario is likely to remain the same for the coming few years.

Rentals: The feasibility of the mall is always subject to the rentals that are achievable, which in turn depends on the strength of the catchment. Considering this, Biswas feels that indiscrete development of million square feet malls is fraught with huge risks. According to Mishra, the cost of space is reaching sky high and the developers are demanding a higher rental with revenue share in a developed shopping centre. The mix of high rentals and revenue share for most of the brands are not sustainable if the brands do not perform. This in turns places developer in difficult position to retain the retailer. "Indian consumers do not have deep pockets. Therefore, to expect very high revenue from the retailers will be too optimistic. Rent to revenue is certainly higher since retailers do not get high revenue unlike other countries," Kumar says.

As per Sheikh, with the introduction of large foreign retailers, developers will benefit from an increased demand for retail spaces by better rentals as many brands who may not get space in city mall either pay premium or venture into tier 2 and 3 cities. Looking positive on the rentals, Sen informs that rental values across most mall destinations within the major cities of India remained largely stable, except for Ahmedabad, Bangalore, and Hyderabad where mall rentals have seen a growth over the previous quarter in the range of 15-30 percent. Vastrapur in Ahmedabad where AlphaOne is located, recorded the highest growth in mall rentals at 33 percent over the last quarter, mostly due to revenue share of existing tenants at a higher value. "At present, there are 155 shopping malls across India with a the malls. FDI in retail will entail a significant increase in employment in these larger format malls.

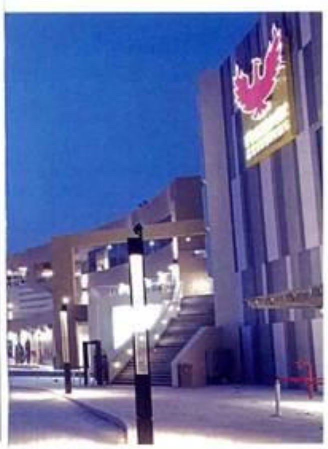
Citing FDI as one of the biggest reasons behind the trend of million squre feet malls, Biswas says: "The recent policy change in FDI has definitely made the environment positive for foreign retailers. Keeping this in mind, it seems quite logical for the developers to go for large malls expecting a healthy demand for space from the retailers. Having said that, the developers need to be cautious and do proper studies and analysis, and check their own preparedness for getting into such large developments." Supporting the theory, Magazine says: "Few developers have been focussing on building large-sized malls which will eventually provide space to global chains to establish their multi-brand operations in the country. Hence, most of these mega malls have been launched with an eye on the new retail policy, which has been in discussion for over last five years. Moving ahead, we believe opening up of the sector is likely to generate significant demand for mall space, which will help reduce vacancy levels in such large-scale malls."

However, Sheikh feels that although not many announcement of mega malls were made post-FDI announcement, the introduction of large foreign retailers like Wal-Mart into the country is eagerly awaited by many where developers hope to benefit from an increased demand for retail spaces. Mishra too opines that the FDI has not played any significant role in the concept of developing million square feet malls. "Most of such mall have been either delivered or are in various stages of construction or towards delivery. The role of recent FDI announcement would be a factor for future developments and extension of the projects in near future," he says.

Soni seems conspicuous about the role of FDI in the emergence of million square feet malls as he says: "FDI in retail will help developers not only clear off their inventories but also add to the existing space. It is a welcome move. But whether this will lead to larger or smaller malls is a thing that will be closely have shown prominent growth in retail stock, while Hyderabad, Pune, Chennai, Kolkata and many other tier 3 towns are rapidly emerging as the retail growth corridors of the next decade. The developers feel that with economy poised to grow, the rate of consumption in all the four zones across India will witness growth.

Sheikh informs that the development of million square feet mall will be more on political zones (read its impact on policies) scenario than the geographical consideration. According to him: "If the constituency serves well, you may see area getting more developers lining up as end of the day it boils down to local consumption patterns at one end and favourable investment environment at the other for developers and retailers." Mishra agrees to the point that the success has to do with zones. While supporting his point, he adds: "In North, the trend of million square feet malls has been a huge success of which Gurgaon and Noida are classic examples. However, in Mumbai there has been development of million square feet malls but most of them are striving for success and are still to catch-up on the business and attract targeted footfalls."

On the contrary, Bector thinks that the trend of million square feet malls is taking place across India and adds although it is true that mall expansion is rapid in North India due to land availability and large consumer spending, Southern



of a mall can convert it into a long-term sustainable model. "Both zoning and brand mix of the mall, if done properly, can create huge benefit to the mall," he says. Sheikh while talking about the zoning technique in a million square feet mall says: "Million square feet malls of the future should include non-traditional anchors. Fully integrated into the mall environment, mass market value retailers such as More, HyperCity and Wal-Mart as well as supermarkets, grocers, theatres, sporting goods stores, and gyms and their diversity is a complement to the more conventional mix of fashion offerings. This integration of unconventional anchors will be distinguished by diversity of tenants, services and choices for the consumer." He feels that through this shoppers seeking variety and value, fun and fashion will find themselves in the opaque zoned mall. All within a single building envelope, these one-stop "all malls" will offer convenience, time savings and powerful allure while functioning as retail magnets and generating a critical mass.

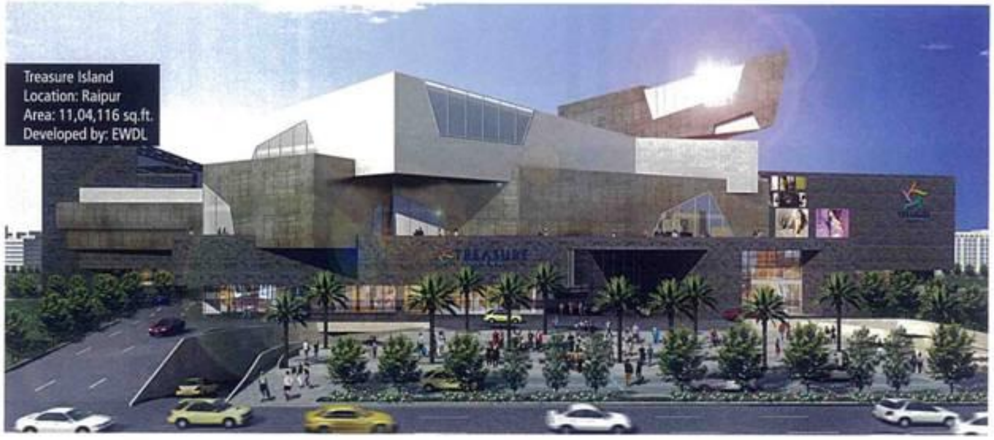
Kumar further explains the same: "Women centric brands are generally preferred in the premium area of the mall. It is advisable to have anchors towards the end of the floor so that visitors pass through the entire vanillas before reaching them. The zoning should be such that all women apparels, accessories, handbags, footwear should be together; menswear should be zoned together; unisex products together; and kids wear together. Developers also prefer to have FEC, food court, and multiplex at the same level." Sen while talking about positioning says: "The operational and financial success of existing and upcoming million square feet malls would largely be an indication of success of organised retailing in India. It is imperative that malls are positioned correctly to attract the right tenant mix and differentiate themselves from other similar developments. Ideally, the developers should aim for a minimum guarantee and revenue sharing model for spaces in malls."

FOOD AND ENTERTAINMENT

In India, it is not just shopping but a total activity of entertainment with shopping and food that makes for a great mall visit. So getting the right kind of entertainment formats is critical to a mall. However, Pal laments that this fact is often ignored by developers or taken up very late in the day. "In reality, mall management must identify their entertainment and food retailers at an early stage. These two formats also require some special consideration in the planning stage itself which includes specific type of flooring, acoustics or load, height, and many more. When one has shopping helped by these other options, the mall becomes a 'place' and not just a 'building' for customers," he says.

Sheikh feels that creativity, resilience, and adaptation of best practices are fundamental underpinnings of the mall business and may be similar from region to region. Hence, the mall owners and developers must have a deep understanding of local shoppers in catchment area before they adopt any measures. A cut and paste from any million square feet mall abroad without proper understanding of its fit in designated catchment should be absolutely no-no. For Sheikh, some of the FEC features that has to be present in a mega mall includes new anchors like art gallery, an opera concert hall, large bowling alley, karaoke center, IMAX 2D & 3D theatre, indoor theme park, large stage for events, cinemas, bowling alley, small roller coaster, and several other entertainment facilities such as 18-hole miniature golf course and boxing ring. Water park will become critical for differentiation and to sustain large plates. Also acquisition of land at right price, construction on tight budget, challenging time lines with anchor leased out before commencement of GFC, very efficient mall management, and right mix of retail and entertainment will be of equal importance.

Citing an example of MOI in Noida, Bector says: "The right brand mix and creating and offering entertainment for all age groups become imperative in a million square feet model. MOI is set to redefine the world of retail in the country as it would be not just the largest mall, but will have 14 anchors tenants , 6 customized shopping levels with over 475 retail units, coupled with the largest indoor entertainment city spread over 2 levels including 7 DT star screens and the largest food court with over 1,200 seats."



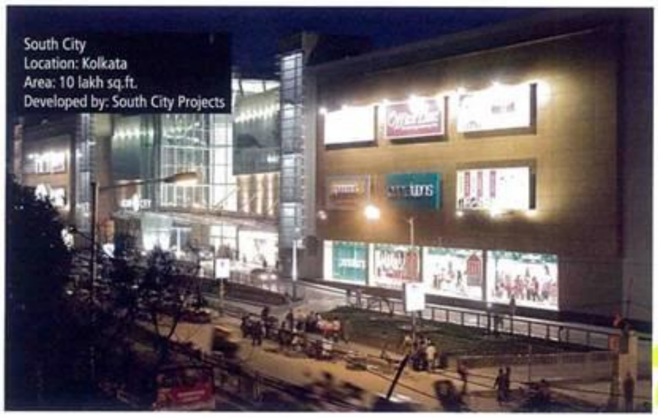
Treasure Island
Location: Raipur
Area: 11,04,116 sq.ft.
Developed by: EWDL

CATCHMENT PROFILE

The catchment of any mall is determined by its location and positioning (whether mid, premium or hi-end). A large mall sized million square feet, being a city level destination, would need to cater to a large catchment and become a family destination. However, the mall would also need to address the requirements of the immediate catchment. Magazine recommends that the developers should undertake a detailed catchment area analysis based on supply and demand dynamics and consumer research to arrive at the appropriate catchment in terms of consumer demographics.

Sheikh agrees and adds that the potential of the catchment, infrastructure and competition are critical and hence the malls of big size will also depend on tertiary and secondary catchments. According to Soni, the location of a mall of any size is very important along with its accessibility and the habitation in the surrounding. "The catchment should consist of upper middle class with a population of minimum 1.5 million in the radius of 4-5 kms of the mall. Multinational companies and special economic zones in surrounding also support in terms of better footfalls," he says.

Sen believes that the catchment profile of mega malls usually transcends the nearby areas of the mall. Most tier 2 cities are witnessing large mixed-use projects in retail especially million square feet malls, entertainment and hotels that are bringing in big investments and creating jobs. Gives a wider perspective on the same, Kumar states: "While people in India are still willing to travel long distances to visit shopping spaces that offer them


South City
Location: Kolkata
Area: 10 lakh sq.ft.
Developed by: South City Projects

a weekend getaway and attractive shopping experience, it becomes imperative to locate the mall next to the appropriate catchment area for its target customers to ensure long-term sustainability of the mall. Large malls with areas of million square feet and above will typically serve as city level destination malls and cater to the catchment of the entire city." He suggests that depending on the demographics, a city can handle between two and three large malls which act as city level malls, supported by medium sized malls of between 4 and 5 lakh sq.ft. to cater to the region-specific requirements of the local catchment. Too many large malls within the same city catchment will eventually end up cannibalising each other.

Bagree at the end warns: "It purely depends on the positioning of the mall, which has to be in sync with the catchment of the population/profile of the customers. Never build a mall which will not cater to the profile of the mall's primary catchment."

CHALLENGES AND OPPORTUNITIES

According to the developers, one of the biggest challenges is the extremely high land costs which then leads to a high rental cost for retailers, and the other areas of concern have been the lack of infrastructure surrounding the development, which not only delays the process of development but also lends an impact on the final perception of the retail real estate development. According to Sheikh, managing a large group of various formats from different countries with different business objectives under the umbrella of one entity can be a challenge, particularly when you add to it an independent mall staff, issues with security and crowd management.

Sen further adds: "Essential ingredients of success would be to understand the needs of the local catchment, which will help in product positioning while also ensuring the right tenant mix to meet the expectations of the catchment. First, the design of malls in India is driven by the architects and not designed taking retail needs into consideration. Secondly, services and their implementation are often compromised. Basically the malls need to be retail friendly. Planning and designing should keep in mind the need to be flexible or have dynamic parameters that may need to be tweaked from time to time to meet the changing needs."

Sheikh predicts a marked increase in demand for retail real estate in the short term and there will be a spurt in demand as new retailers set up test stores. However, he also apprehends that whether this will translate into sustained demand in the long term depends on whether these new first wave foreign retailers post FDI are able to overcome infrastructural hurdles and fare well in the Indian market. While rentals are typically 3 percent of the turnover of retail companies internationally, it is well over 10 percent of turnover in international brands when they come with realistic expectations. Amongst all theses challenges, Pal, whose all Phoenix Marketcity malls in Mumbai, Pune, Bangalore, and Chennai belong to the million square feet portfolio, still seems optimistic about the future as he finally says: "Challenges are plenty from small minor details to larger issues, and practically in each aspect of the mall. To make a mall of this size, we have to dream, live and breathe the owner's vision. Only if your eyes are on the goal as a team, you can reach it. And our best partners in this process are our retailers." ●