



Q1 2010

# INDIA ORGANISED RETAIL MARKET

Diagnosis & Outlook

**Knight Frank**

## HIGHLIGHTS

- During 2010-12, 55 mn.sq.ft. of retail space will be ready in 7 major cities
- Between 2010 and 2012, the organised retail real estate stock will more than double from the existing 41 mn.sq.ft. to 95 mn.sq.ft.
- About 20% or 8 mn.sq.ft. of mall space is vacant
- During 2009-12, the Organised Retail Market will grow at a rate of 31% p.a.
- Between 2010-12, a higher pace of real estate development in comparison to the pace of organised retail market growth, will create an oversupply situation to the magnitude of 21 mn.sq.ft. in 2012





# TABLE OF CONTENTS

1. Editorial .....	1
2. National Capital Region (NCR) .....	5
3. Mumbai .....	17
4. Pune .....	27
5. Bengaluru .....	34
6. Hyderabad .....	44
7. Chennai .....	53
8. Kolkata .....	62
9. Case Study .....	72
Mumbai .....	72
Bengaluru .....	77

# Q1 2010 INDIA ORGANISED RETAIL MARKET

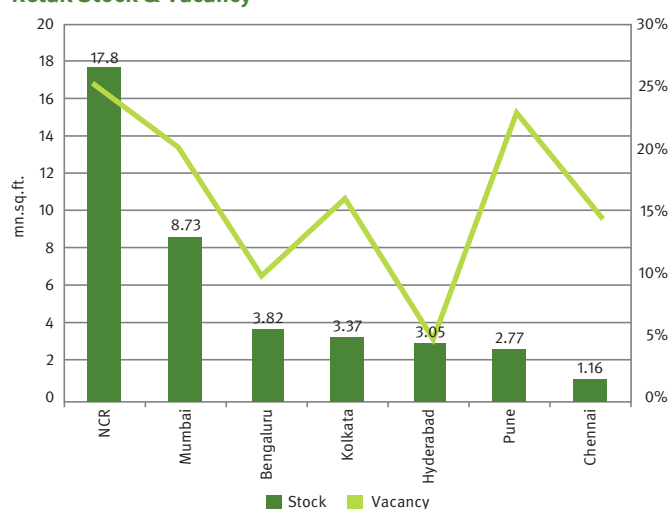
Diagnosis & Outlook

## EDITORIAL

In the initial years of the current decade, the Indian economy witnessed a sub 5 per cent annual growth rate and as a result, the private consumption expenditure and retail sales clocked an annual average growth rate of only 4 per cent and 4.8 per cent respectively during 2000-01 to 2002-03. However, there was a smart pick up of the economy during 2003-4 to 2007-08 and the average annual GDP growth rate was recorded at 8.9 per cent. Once the economy attained high momentum, the Indian retail trade witnessed a robust growth of around 11 per cent during this period. The upsurge witnessed during 2003 to 2007 was contained during the last two years because of the economic meltdown. Of late, signs of economic recovery are observed which is likely to put the retail trade in India again on a reasonably high growth trajectory.

Figure 1

### Retail Stock & Vacancy



Source: Knight Frank Research

### Indian Retail Market

The retail sector in India is highly fragmented and mostly owner-run “Mom and Pop” outlets. The entire sector is dominated by small retailers consisting of local Kirana shops, general stores, footwear and apparel shops, hand-cart hawkers and pavement vendors. These together form the “unorganised retail” or “traditional retail”. According to the Investment Commission of India (ICI) estimates, there are over 15 million such “Mom and Pop” retail outlets in the country. In terms of total sales, one can find a wide range of estimates and this definitely reflects lack of sound official government data. ICI had estimated Indian retail sales figure at US\$262bn for 2006, although market estimates ranged from US\$200bn to as high as US\$386bn for that year. Various agencies have made efforts to project the growth rate of the total retail market till 2013 and the figures hover around 13-15.5 per cent.

In line with India's economic growth, the retail sector in this country is not only expanding but also modernizing. This new trend began during late 1990s and early 2000s. In the midst of the unorganised retail sector's strong dominance, some of the major industrial houses have entered into this sector and have announced ambitious future expansion plans. Transnational corporations have also joined hands with big Indian companies to set up retail chains. India's Bharti group joined hands with Walmart, the world's largest retailer and Tata group tied up with the UK based Tesco, the world's third largest retail group.

A perceptible structural change towards an organised format is foreseeable in the retail sector. These organised and modern retail formats generally consist of supermarkets/convenience stores, hypermarkets, discount stores, speciality stores and departmental stores. These outlets are usually chain stores, all owned or franchised by a central entity or a single store large enough to form a part of the modern retail segment. The existence of these modern retail outlets are generally found in malls and prominent highstreets across various cities.

As discussed earlier, the retail market in India is primarily unorganised and the penetration of modern retail is very minimal. This is in contrast to the trend in developed economies of USA, UK, France and Germany where organised retail is in the range of 75-80 per cent. As per the data released by ICI, organised retail market size was to the tune of US\$12.1bn in 2006, accounting for 4.6 per cent of the total retail segment. The late diffusion and low share of modern retail is mainly attributable to the severe restrictions on foreign direct investment (FDI) for retailing in our country till end of 2005. The demand side characteristics such as moderately high economic growth, ever-expanding middle and upper class consumer base, high urbanization rate, increasing share of women in workforce and greater availability of personal credit were definitely favourable for a greater penetration of modern retail in the economy. In January 2006, India allowed foreign companies to own up to 51 per cent in single-brand retail joint ventures (JVs) and as a result the organised retail in India got a boost. Though multiple-brand foreign firms are still barred in retail, they can set up wholesale operations. The growth in organised retailing in the present decade may be gauged by the rise in number of shopping malls. In 1999, India had just 3 shopping malls measuring around 1 mn.sq.ft. and by the end of 2006, the total mall space rose up to 28 mn.sq.ft. with an average annual addition of 3.9 mn.sq.ft. Post 2006, on an average 8 mn.sq.ft. of retail space has been added annually pan India taking the mall space to over 52 mn.sq.ft by the end of 2009.

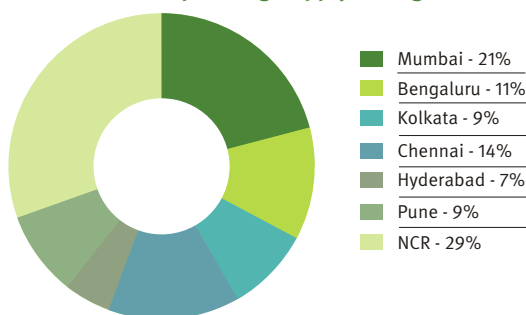
With partial relaxation of FDI norms pertaining to retail, the modern retail market is expected to grow at a healthy rate. There has been a creeping internationalization of retailing in the recent past. As home markets are becoming crowded, modern retailers from developed countries are turning to new emerging markets like India.



As per various literature, the projected annual growth rate of this segment of the retail market till 2013 is slated to be over 30 per cent. As a result, its share in total retail market is expected to be around 11 per cent by 2013. On the flip side, concerns have been raised that the growth of modern retail will have an adverse impact on retailers in the unorganised sector. However, a recent study (2008) undertaken by the Indian Council for Research on International Economic Relations (ICRIER) and commissioned by Department of Industrial Promotion and Policy (DIPP), Ministry of Commerce & Industry, Government of India has shown that there would be a positive sum game in the retail sector in India where both organised and unorganised retail segments not only coexist but also grow substantially in size. As a result, it is expected that a positive environment is likely to be prevalent in the economy which would take the organised retail on a high growth trajectory.

Figure 2

#### Distribution of Upcoming Supply during 2010-12



Source: Knight Frank Research

### Recent Dynamics of Organised Retailing

The economic meltdown of 2008 and 2009 has brought in some important alterations in the organised retail market in India. During the boom period, prior to the downturn, the outlook for this sector exuded confidence. Lots of developers announced their forays into mall development and the penetration of modern retail was expected to grow at a phenomenal rate. However, as a result of the economic slowdown in the last couple of years, bullish sentiments have given way to the much needed cautious and consolidative approach among developers and retailers. Lease rentals have been renegotiated and a substantial correction in the rental rates has taken place. Mumbai witnessed an average rental correction of 15-20 per cent during Q1 2008 to Q4 2009 while the average correction in Bangalore and NCR was more than 25 per cent during the same period. Apart from rental corrections, various lease rental models have evolved as a corollary to coping strategies adopted by the stakeholders of organised retailing during 2008 and 2009. Zero rental schemes and revenue sharing models are options that are proving increasingly attractive to retailers looking to trim costs and to property owners seeking to

maintain occupancies. Revenue sharing models are based on the premise that rent paid is linked to store performance. Some retailers are also attempting to negotiate a combination of zero rentals and revenue sharing agreements, whereby a period of zero rentals will be followed by revenue sharing for a duration until sales volumes begin to rise again. Another variant that is increasingly gaining importance is revenue sharing with a minimum guarantee from the retailer's side.

In addition to the short-term measure of renegotiating rent, retailers are also looking at long-term initiatives in order to trim costs and diversify risk. Certain national brands have started exploring relatively untapped or growing segments in order to diversify their range of products. Consolidation of operations by reducing number of outlets is also another strategy adopted by several retailers to beat the adverse consequence of oversupply created during the boom time.

Once the phase of control and consolidation is over, significant new trends could well begin to emerge across the board. Retailers are expected to shift focus to food and related items, rather than lifestyle goods. In addition to this, Tier I and Tier II cities could become more attractive propositions for developers and retailers due to lower rentals and operating costs and high growth in population.

### Objective of the Study

In the context of sustainable growth, it has to be noted that there needs to be a convergence between demand and supply. The demand for organised retail market is captured through the consumer base and its spending towards consumer items like food and related items, FMCG, consumer durables and clothing and footwear. Malls and other organised retail space represent the supply side. In an efficient market, the supply of organised retail space keeps a balance with the existing consumer market and its future growth. Otherwise, the situation of over and under supply will prevail. At the city level and also at the zone level within a city, the under and over supply situations crop up primarily because of the demand and supply mismatch. However, at the mall level, micro-market and mall specific factors may also play important roles in creating this mismatch.

In view of the above, Knight Frank research has carried out this study to gauge the performance of the operational malls in terms of vacancy/occupancy scenario, existing rentals of vanillas and anchors, rent to revenue ratios and monthly trading density (revenue per square feet per month). In addition, the upcoming malls and large organised retail formats are also tracked to have an estimate of the supply of retail space that would be operational by 2012. With the understanding of operational and upcoming organised retail formats, an attempt has been made to foresee the demand-supply dynamics of the modern retail market till 2012.

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## Diagnosis & Outlook

### Coverage and Approach

The geographical coverage of this study is restricted to the top 7 cities of Mumbai, NCR, Bangalore, Kolkata, Chennai, Hyderabad and Pune. Knight Frank research has undertaken an in-depth primary survey of all the major operational and upcoming malls and 2 prominent highstreets in each of these 7 cities during February-March 2010. To procure store level data wherever necessary, sample stores in malls and highstreets have been identified and surveyed keeping in mind the different product categories and shop locations. The information collected from the primary survey has been presented at the micro-market/zone level.

In order to augment the quality and depth of its analysis, Knight Frank research has formulated an economic model to forecast the demand supply dynamics in 7 major cities of the country for a period of 3 years (2010-12). While the analysis was conducted at a city level for 5 cities, a detailed zone level analysis was carried out for Mumbai and Bengaluru as case studies.

The dynamics of Organised Retail Market (ORM) and the Real Estate Retail Potential (RERP), projected until 2012, provide an insight into the oversupply or undersupply situation in the retail real estate space.

The demand side is represented by ORM, the base data for which was sourced from Indicus Analytics, 2009. The forecast for ORM is driven by three factors, namely; growth in the number of households, increase in the price level of expenditure categories and growth in the share of

organised retail market. Besides these primary drivers, we have also captured the impact of the incremental household income on the organised retail market. The concept of Marginal Propensity to Consume (MPC) was adopted to identify the share of incremental consumption expenditure on retail that is contributed by the income growth.

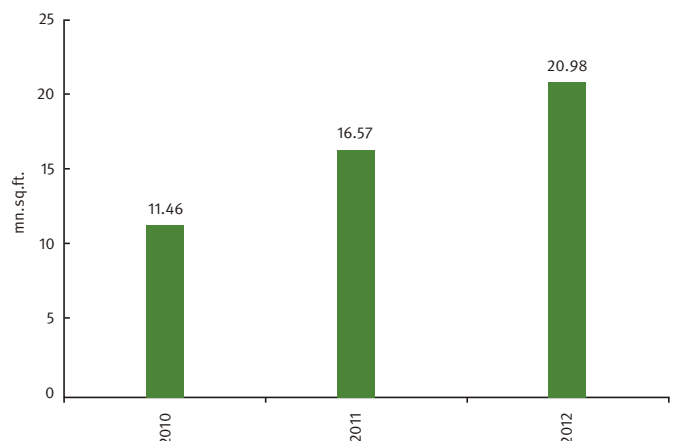
While the estimate of the ORM in the Total Retail Market in India is available in the literature, the share of a particular city or a zone was estimated by Knight Frank Research. We have done this with a presumption that the penetration of organised retail will be higher in regions with a higher proportion of middle income and high income households.

For the supply side, an exercise was undertaken to estimate the magnitude of retail space that can cater to our forecasted ORM. A survey was conducted to capture the Average Trading Density (ATD) of organised retail space. ATD represents the revenue per sq.ft. of saleable area and is collected from matured markets and hence, represents an optimal business scenario. A natural vacancy of 5% is considered to be an acceptable vacancy rate and therefore our forecast has accommodated this vacancy.

Hence, the ATD and magnitude of organised retail space were used to calculate the Real Estate Retail Potential (RERP) for each of the years until 2012.

Through the dynamics of ORM and the RERP, we were able to identify the oversupply or undersupply situation in a particular zone for a period. The excess of ORM over RERP indicates an undersupply situation and the excess of RERP over ORM indicates an oversupply situation.

Figure 3  
**Estimated Oversupply Situation in 7 Major Cities  
(Non-cumulative)**



Source: Knight Frank Research

THE DYNAMICS OF ORGANISED RETAIL MARKET (ORM) AND THE REAL ESTATE RETAIL POTENTIAL (RERP), PROJECTED UNTIL 2012, PROVIDE THE INSIGHT INTO THE OVERSUPPLY OR UNDERSUPPLY SITUATION IN THE RETAIL REAL ESTATE SPACE.



## Key Takeaways

- During 2010-12, 55 mn.sq.ft. of retail space will be ready in 7 major cities
- Between 2010 and 2012, the organised retail real estate stock will more than double from the existing 41 mn.sq.ft. to 95 mn.sq.ft.
- About 20% or 8 mn.sq.ft. of Mall space is vacant in 7 major cities
- During 2009-12, while the Organised Retail Market (ORM) will increase to 2.25 times, the Real Estate Retail Potential (RERP) will increase at a higher pace to 2.91 times
- Between 2010-12, a higher pace of real estate development in comparison to the pace of organised retail market growth, will create an oversupply situation to the magnitude of 21 mn.sq.ft. in 2012 in 7 cities like Mumbai, Pune, Hyderabad, Delhi, Kolkata, Bengaluru and Chennai
- The state of affairs of the retail real estate market implies that the frenetic rental hikes witnessed during the boom period will not haunt retailers atleast until 2012

## Way Forward

While the key takeaways above offer a sneak peek in to the future of retail real estate space, the following part of the report aims to arm you with greater insights on the future of this segment. Because of the possible impact on the retail landscape, certain things about the future are worthy of discussion here. For instance, the share of Food items in the total retail is over 50%, but in case of organised retail it is a miniscule 1%. This implies that a successful effort to increase the share of this category in the organised retail market, will have a potentially large and positive bearing on the overall organised retail real estate space.

The projections for the development of upcoming retail space have been based on projects where ground breaking has been initiated. However, as witnessed in the past, the developers will take cognizance of the vacant stock and therefore the projected supply until 2012 may be deferred beyond this period. The projected oversupply may not be reflected in vacancy numbers in case the retailers continue to conduct sub optimal business while occupying the space. In this case, the lower vacancy will come at the expense of business and therefore may not compare with the forecasted oversupply.

The key indicators presented in the report indicate an oversupply situation in many cities signifying that the retail rentals will remain subdued in most of the markets. Under the existing rules, FDI is not allowed in retail, except the 51% permission in single brand retail and 100% FDI in wholesale cash-and-carry trade. Recently, the debate on

51% FDI in multi brand retail, other than food, groceries and vegetables, has gathered steam in the commerce and industry ministry. If allowed, this will have a significant positive bearing on the retail real estate space.

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## NATIONAL CAPITAL REGION (NCR)

### 1. Market Review

The National Capital Region comprises six major zones namely the National Capital Territory of Delhi, the industrial hubs of Faridabad and Ghaziabad, the peripheral cosmopolitan zones Gurgaon & Noida and the newly emerging micro-market of Greater Noida. The region is the oldest retail hub in northern India and boasts of some of the most sought after shopping destinations in the country. Although the last few years witnessed the emergence of new markets like Chandigarh, Ludhiana and Jalandhar, NCR still continues to account for the highest market share in retail spending in the entire northern belt.

During the last decade NCR's retail sector witnessed substantial growth. Historically, the retail market of the Region was concentrated in Delhi and dominated by major highstreets like the Connaught Place, South Extension, Lajpat Nagar, Sarojini Nagar, Defence Colony and Greater Kailash. Over the last 5-6 years, as the highstreets continue to have a sizeable share of retail spending, various newer organised formats have emerged in the region. Buyers in the NCR have adapted to the new age shopping format of clubbing retail space and a multiplex under the same roof. The concept of organised retail emerged in the region with properties like the Ansal Plaza at Khel Gaon Marg, The Centrestage at Noida, DLF's City Center and MGF's Metropolitan in Gurgaon, becoming operational between 2002-04.

Since its inception, developers in the NCR have been striving to improvise retail formats to make shopping a convenient experience, based on the consumer's lifestyle. Newer formats like retail clubbed with multiplex and office, as well as retail cum multiplex clubbed with hotel have emerged in the region. Projects like the Ambience Mall in Gurgaon, Select City Walk and DLF Courtyard at Saket, are formats that have dedicated star category hospitality spaces alongside the mall. On the other hand, Unitech Group's Metro Walk in Rohini and Great India Place in Noida are retail formats with exclusive amusement parks as a part of the project. Such newer concepts have redefined the retail scenario within the region over the last few years. Further, malls like the Ambience in Gurgaon and the Great India Place in Noida, with over 1 mn. sq.ft. of retail space and entertainment zone, are redefining mall formats in terms of the size of the mall. Of late, micro-markets like Saket and Vasant Kunj in Delhi are also emerging as new organised retail hubs in the Region.

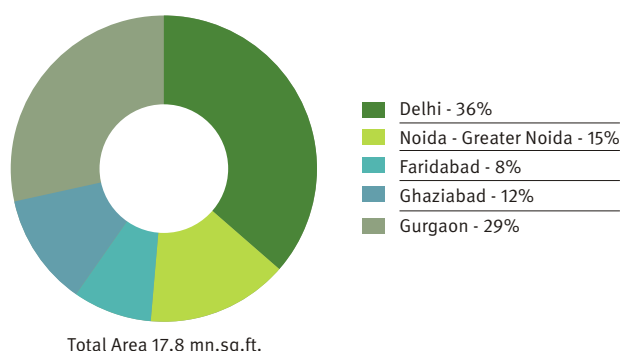
The advent of the organised mall format within the NCR made way for many international retailers and brands venturing into India and opening up their stores in Delhi, Gurgaon and Noida. Foreign apparel brands like Guess, Esprit, Aldo, Tommy Hilfiger, Lladro and Nautica are posing a stiff competition to local brands.

Opening up of DLF's Emporio Mall in Vasant Kunj, an exclusive mall for designer-wear saw international brands like Armani, Gucci, Louis Vuitton, Christian Dior, Fendi, Cartier and Hugo Boss and Indian Designers like Tarun Tahiliani, Rohit Bal, Suneet Verma and Satya Paul competing under the same roof.

Growth of the services sector and continuous efforts of the civic authorities to improve connectivity and infrastructure within the NCR have been the key factors driving organised retail space in the NCR. Also, the Delhi Metro Project has contributed largely towards the growth of the retail sector within the NCR. Connecting most of the major hubs within Delhi, the Metro has made mobility easy for shoppers and has enhanced the catchment of malls located in zones that are linked to it.

Figure 4

#### Distribution of retail stock



Source: Knight Frank Research





The Delhi metro has recently been extended to Noida, which has substantially reduced the travel time from Delhi and thereby improved the retail prospect of Noida Sector 18, a prominent retail micro-market. As the South Delhi-Gurgaon link is due to be operational by the end of Q3 2010, the retail markets in both the locations are expected to witness greater consumer interest. In Gurgaon, specifically, this development is expected to positively impact the organised retail formats operating out of MG Road.

During the years 2008 and 2009, the global economic slowdown had its impact on the NCR's retail sector, consequently leading to a decline in mall rentals. This also led to an increase in mall level vacancies and a delay in construction of new/planned projects. However, with the Indian economy showing positive signs of recovery, during the last few quarters, the retail sector in the NCR has also been observed to fairly stabilise. At present, rental corrections have reduced, leasing activity in malls and highstreets has picked up and construction activity across micro-markets has resumed, albeit on a cautious note.

## 2. Operational Mall Analysis

The total cumulative stock of mall space in Delhi-NCR is about 17.87 mn.sq.ft. spread across Delhi, Gurgaon, Noida, Greater Noida, Ghaziabad and Faridabad. Amongst various micro-markets in the NCR, Delhi was the foremost in coming up with organised retail formats. Besides, owing to a larger population base as compared to other zones in the NCR and a higher requirement of organised retail space, Delhi witnessed a larger number of retail projects in the region. Thus, not surprisingly, Delhi has the largest share of about 36% in the total mall space of the NCR. Gurgaon, with a share of 29%, is the second largest market in the NCR in terms of stock of mall space.

Each zone within the NCR is further classified into various micro-markets as presented in table 1.

Table 1

### Zonal classification

Zone	Locations
Delhi	North Delhi, South Delhi, West Delhi & East Delhi
Noida - Greater Noida	Sectors 18, 25A, 38A & Pari Chowk
Faridabad	Sector 12, Sector 15, Sector 20 and Mathura Road
Ghaziabad	Indirapuram, Vaishali, Kaushambi, Mohan Nagar
Gurgaon	NH-8, MG Road and Sohna Road

Source: Knight Frank Research

### Delhi

Delhi has a number of prominent retail markets spread all across and these have been classified into the North, South, East and West zone. With a total stock close to 6.51 mn.sq.ft. Delhi has a 36% share in the



total mall space. Central Delhi is primarily dominated by highstreet retail space located in markets like Karol Bagh and Connaught Place. Northern and North West Delhi saw substantial mall development during the last 3-4 years in locations like Pitampura and Rohini primarily on account of a sizeable residential catchment in the vicinity. Malls like Unitech Group's Metro Walk, D-Mall, M2K Mall and Agarwal City Mall are some of the retail projects to have become operational over the last few years.

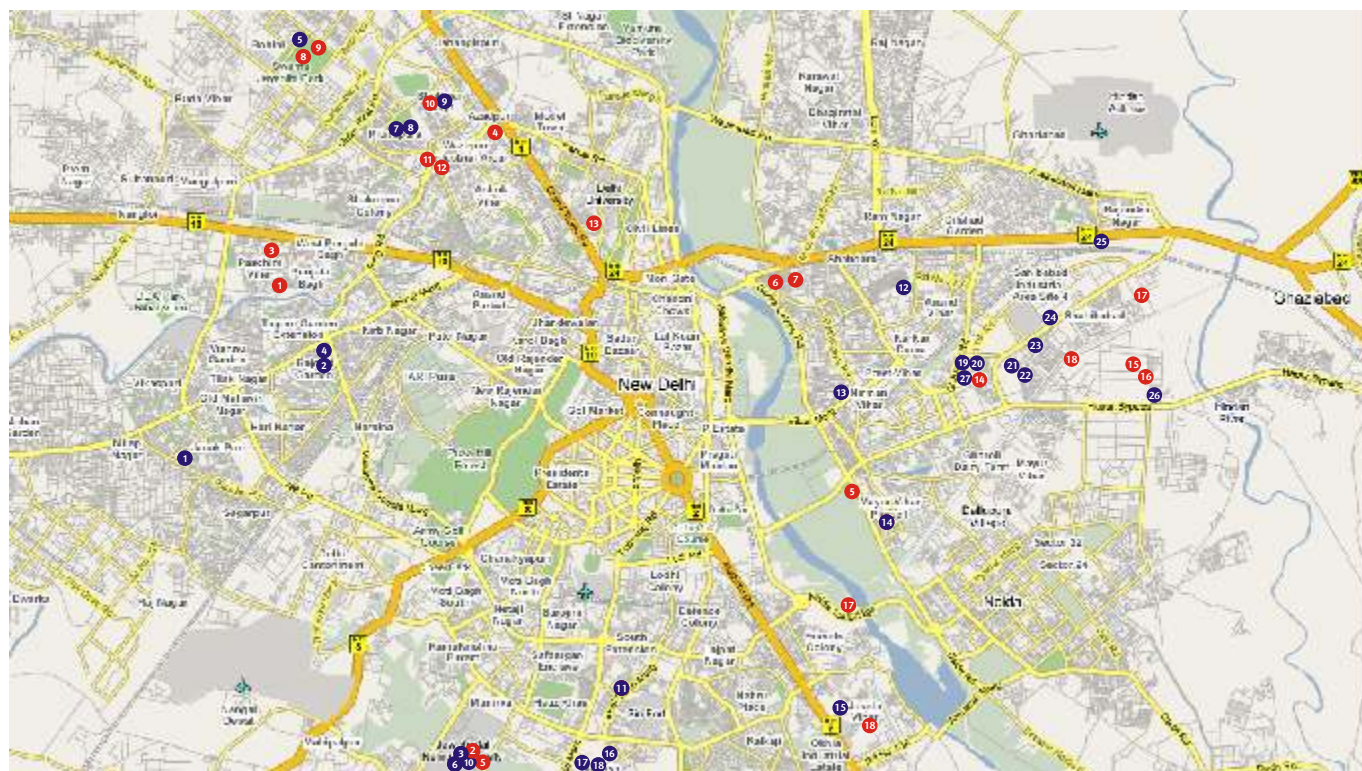
Ansal Plaza, located at Khel Gaon Marg in southern Delhi was the first mall to come up in the NCR. During the last couple of years locations like Vasant Kunj and Saket have witnessed the launch of several high-profile mall projects. Malls like Select City Walk, MGF Metropolitan and DLF Courtyard in Saket and DLF Promenade and DLF Emporio in Vasant Kunj have made South Delhi an attractive destination for shoppers. Owing to the affluent residential catchment in this region, most of the malls in the micro-market include international brands in their tenant profile. Other malls like V3S Mall and Cross River Mall in the eastern part of the city and TDI Mall and West Gate Mall (Rajouri Garden) in the west, also form part of the organised retail stock in Delhi. The average vacancy level in Delhi is close to about 28%.

**NCR HAS A TOTAL MALL SPACE STOCK OF ABOUT 17.8 MN.SQ.FT., OF WHICH DELHI CONTRIBUTES THE MAXIMUM OF 36%, FOLLOWED BY GURGAON AT 29%.**

# Q1 2010 INDIA ORGANISED RETAIL MARKET

Diagnosis & Outlook

## Delhi & Ghaziabad



### Delhi & Ghaziabad

#### ● UPCOMING

1. Capitol City Mall	14. Angel Mega Mall
2. Ambience Mall	15. Eros Market Place
3. Indus Mall	16. D Mall, Indrapuram
4. Metro Mall, Azadpur	17. Express Plus Mall
5. Metro Mall, Akshardham	18. Express Mall
6. Metro Mall, Seelampur	19. Opulent Mall
7. Metro Mall, Welcome	
8. D Mall, Rohini	
9. Parsvnath Mall	
10. MGF Market Place	
11. Pearls Omexe	
12. Parsvnath Metro Mall	
13. Today's Northgate Orbit Plaza	

#### ● EXISTING

1. West End Mall	10. DLF Emporio	19. Pacific Mall
2. TDI Mall	11. Ansal Plaza	20. Waves Kaushambi
3. DLF Promenade	12. Cross River Mall	21. Ansal Plaza Factory Outlet Mall
4. TDI Paragon	13. V3S Mall	22. Mahagun Metro Mall
5. Metro Walk	14. DLF Galleria	23. Shopprix Mall
6. Vasant Square Mall	15. Splendor Forum	24. Galaxie
7. Pacific Mall	16. DLF Courtyard	25. MMX Mall
8. D Mall	17. MGF Metropolitan	26. Shipra Mall
9. Shop in Park	18. Select City Walk	27. East Delhi Mall

This is primarily on account of a high vacancy rate in a few malls like Shop In Park North at Shalimar Bagh and Vasant Square Mall in Vasant Kunj. The MGF Metropolitan Mall in Saket is also responsible for the high vacancy rate in Delhi's retail market. The vacancy level in MGF Metropolitan Mall can be attributed to that fact that it is located along two successful malls, Select City Walk and Courtyard. Besides, the

absence of a multiplex and the food court in its premises also attracts lesser number of footfalls as compared to the adjacent malls.

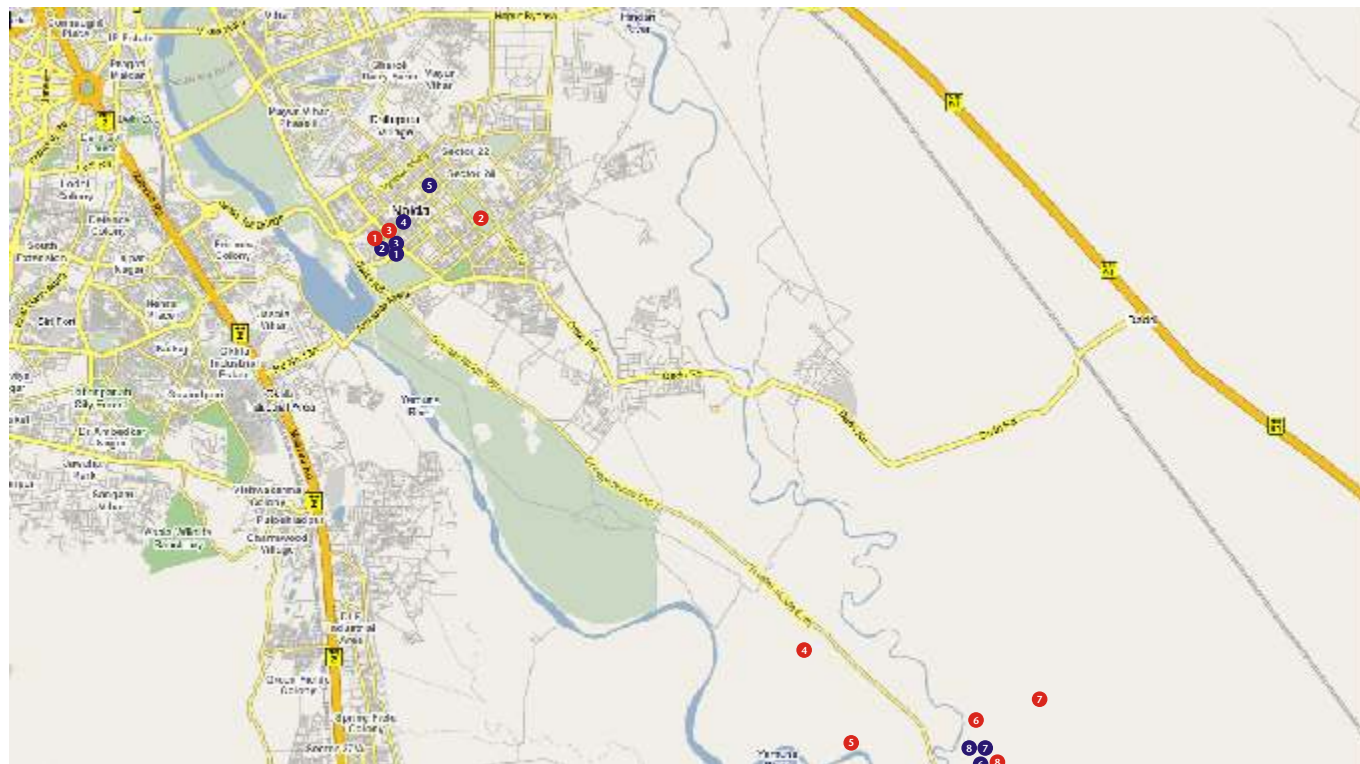
## Gurgaon

Gurgaon with a total share of about 29% contributes 5.12 mn.sq.ft to the total mall space stock in the NCR. Locations like MG Road, NH 8 and Sohna Road are important micro-markets in the region. The DLF City Centre Mall and The MGF Metropolitan Mall located on MG Road were the first malls to be launched in the retail market of the Region. Currently, Ambience Mall located on NH 8 is the biggest mall here with more than 1.5 mn.sq.ft. of built up area. This mall is one of the first malls operational under a mixed use format with a mix of retail, office space, multiplex and hospitality space. In Gurgaon, MG Road is the most prominent retail market, primarily on account of its location advantage. With South Delhi in the vicinity and the presence of substantial residential catchment on MG Road comprising DLF phase 1-4 and Sushant Lok, this region has become a key retail hub. Operational malls along this stretch, like Gurgaon Central, Sahara Mall, MGF Mega City and DLF Grand, contribute around 17% of mall space to the total retail mall stock in Gurgaon. On the other hand, Omexe Wedding Mall and Omexe Gurgaon Mall are amongst some of the notable retail developments on Sohna Road. The Gold Souk Mall in Gurgaon is a specialty mall housing a number of jewellery stores as major tenants.





## Noida and Greater Noida



### Noida & Greater Noida

#### UPCOMING

1. Parsvnath Mall Eighteen
2. Senior Mall, Sector 32
3. Wave Silver Tower
4. Nehru Extension
5. I Mall
6. Grand Venezia Mall
7. Omaxe Connaught Place
8. MSX Mall

#### EXISTING

1. Senior Mall, Sector 18
2. Centre Stage Mall
3. Great India Place
4. Sab Mall
5. Spice World
6. SNG Plaza
7. NRI City Centre
8. Ansal Plaza

The average vacancy level across malls in Gurgaon is about 27%. This can be due to the presence of a few new malls in the region, like the Star Mall on NH 8 which became operational about a year back but has not witnessed any store openings till date.

Ansal Plaza, located at Palam Vihar, is another mall which has low occupancy levels. The high vacancy rates in Gurgaon can also be attributed to the economic recession witnessed during the last year and a half. Moreover, due to low footfalls in a few malls and low sales volume, a number of retailers have shifted their operations to more successful projects, thereby leading to high vacancy in certain malls.

## Noida-Greater Noida

Noida-Greater Noida altogether contribute about 15% to the total mall stock of Delhi NCR with an area of about 2.65 mn.sq.ft. Locations like Sector 18, 38A and Sector 25A in Noida and Pari Chowk in Greater Noida constitute most of the mall stock operational in the Region.

Centre Stage Mall was one of the first malls to be operational here in 2002. Unitech Group's Great India Place, which came up in sector 38A in 2007, is the most recent mall in the region and boasts of a distinctive mall format. With close to 1.5 mn. sq.ft. of retail cum entertainment area, the mall has a dedicated amusement park which attracts a large number of shoppers. The average mall vacancy is lower than that compared to Delhi and Gurgaon and is in the range of 16%. Ansal Plaza at Pari Chowk contributes significantly to the vacancy levels of the region. Malls like the Centre Stage and Great India Place have the lowest vacancy levels in the region primarily on account of their location advantage. Located in Sector 18 and 38A, the malls draw their catchment from all parts of Noida. These sectors being close to Kalindi Kunj, Sarita Vihar and Jasola, also attract a large number of shoppers from these locations.

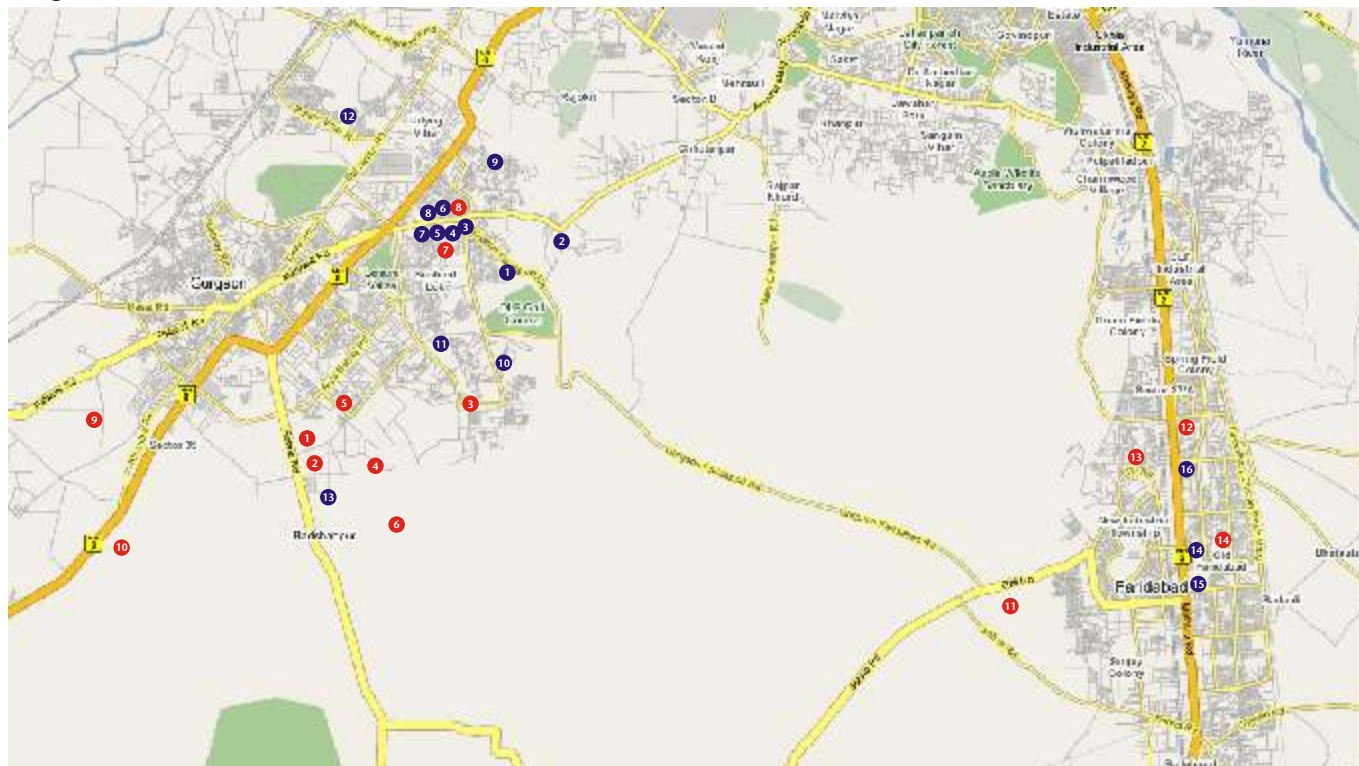
## Ghaziabad

The total stock of mall space in Ghaziabad is about 2.11 mn.sq.ft. which is about 12% of the total mall space in the NCR. Locations like Indirapuram, Vaishali, Kaushambi and Mohan Nagar are the main micro-markets in the region. Malls like the Shipra Mall, Pacific Mall and East Delhi Mall are the most successful malls in the region. Shipra Mall located in Indirapuram and The Pacific Mall & East Delhi Mall located in Kaushambi enjoy the benefit of the residential catchment in and around the region that has made these malls successful in terms of high occupancy levels as well as good footfalls.

# Q1 2010 INDIA ORGANISED RETAIL MARKET

Diagnosis & Outlook

## Gurgaon and Faridabad



### Gurgaon

#### UPCOMING

1. R Mall
2. NineX Mall
3. Metro World
4. The Sapphire
5. SS Plaza
6. Emerald Plaza
7. MGF Metropolis
8. Senior Mall
9. Floral Tower
10. Legend Heights

#### EXISTING

1. DT Mega Mall
2. JMD Regent Arcade
3. DLF Grand Mall
4. Sahara Mall
5. MGF Mega City
6. MGF Metropolitan
7. DT City Centre
8. Gurgaon Central
9. Ambience Mall
10. Centrum Plaza
11. Gold Souk
12. Ansal Plaza
13. Omaxe Gurgaon Mall

### Faridabad

#### UPCOMING

11. Achievers Centre Point
12. Gardenia Sky Mall
13. Metropolitan Mall
14. Ozone Centre Mall

#### EXISTING

14. Crown Plaza
15. SRS Mall
16. Crown Interior Mall

At present, the vacancy level in Ghaziabad is around 13%. Retail projects like the MMX Mall in Mohan Nagar and Ansal Plaza at Vaishali have not been very successful and are some of the major contributors to the vacancy levels in Ghaziabad.

The 200,000 sq.ft. Ansal Plaza, primarily a mall for factory outlets of various retail products, did not attract lot of retail tenants when it was launched in 2006. Currently, it has let out a part of its retail space to be utilized by office tenants as well.

Table 2  
Mall Vacancy

Micro-market	Mall Vacancy
Delhi	28%
Noida - Greater Noida	16%
Faridabad	39%
Ghaziabad	13%
Gurgaon	27%

Source: Knight Frank Research

## Faridabad

Faridabad has the smallest share in the total stock of the NCR mall space. With a retail space of about 1.46 mn.sq.ft., it contributes about 8% to the total mall stock of the NCR. Most of the retail developments witnessed by Faridabad have been on Mathura Road, Sector 12, 15 and 20. Crown Plaza Mall, launched in 2003, is one of the first malls to be operational in Faridabad and has a mixed use format of retail cum multiplex, clubbed with office space. During the last couple of years the Faridabad market witnessed substantial organised retail space supply on account of malls like Parsvnath Mall Manhattan, Eldeco Station One and Senior Destination Point becoming operational. However, the malls in Faridabad have not been as successful as the ones in other NCR zones and operate on a high level of vacancy, to the tune of about 39%.



Besides, Faridabad being an industrial town, did not witness many international brands setting up their operations in the Region. Most of the national and local brands here have been operating their stores in the highstreets. Hence, with preference for a highstreet store still remaining high in Faridabad, retailers have found difficulty in attracting customers to their stores in the malls.

Another reason for malls not being successful in Faridabad is the preference of shoppers to go to markets in Delhi, thereby further shifting the consumer catchment base from Faridabad. Malls like the Crown Plaza Mall, Crown Interior Mall, SRS Mall and Senior Destination Point are the only malls that have been successfully operating out of Faridabad.

### 3. Upcoming Supply Analysis

The NCR market is expected to witness a fresh supply of about 16.14 mn.sq.ft. of mall space by the end of 2012. Out of the total supply, around 62% of the supply will enter the market in 2010 and the remaining 38% in 2011 and 2012. The reason behind this major share of the supply to enter the NCR market in 2010 can be attributed to the supply lag of projects which were due to be completed in 2008 and 2009 but were delayed owing to the economic recession.

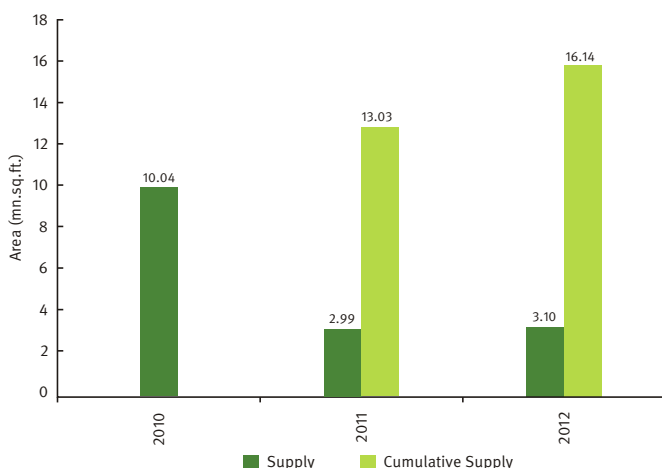
#### Delhi

Delhi continues to dominate the NCR's retail market, having the largest share in the total upcoming supply by the end of the year 2012.

With a share of about 33%, Delhi is expected to witness a fresh supply of around 5.39 mn.sq.ft. by the end of 2012. Out of this, around 81% of the supply is expected to enter the market by the end of 2010.

Figure 5

#### Year-wise distribution of supply



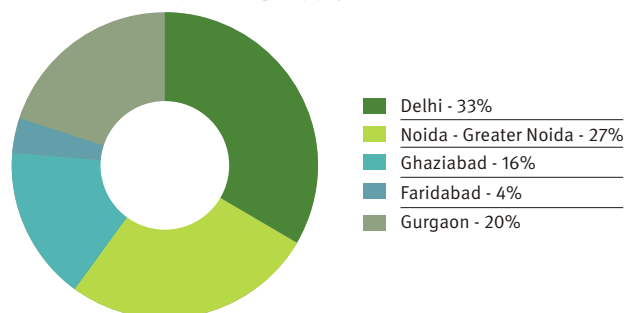
Source: Knight Frank Research

**NCR IS EXPECTED TO WITNESS SUPPLY OF APPROX. 16 MN.SQ.FT. OF MALL SPACE BY 2012, OF WHICH DELHI SHALL CONTRIBUTE THE MAXIMUM OF 33%**

The remaining supply of about 8% and 10% is expected to enter the market by the end of 2011 and 2012 respectively. Most of the under construction projects are located in the North - North Western, Southern and Eastern part of the city. Due to the availability of vacant land parcels in Rohini Sector 10, the region is witnessing a number of retail developments. Malls like the Ambience Mall in Vasant Kunj, Parsvnath Metro Malls at Welcome, Seelampur and Akshardham Metro stations, and others like D-Mall, Pearl Omaxe Mall and North Gate Orbit Plaza in North/North West Delhi are some of the notable retail projects underway.

Figure 6

#### Distribution of upcoming supply (2010-12)



Total Area 16.14 mn.sq.ft.

Source: Knight Frank Research

Amongst the upcoming supply, Ambience Mall in Vasant Kunj will be the largest mall to be operational in 2010, having around 1.1 mn.sq.ft. of built up area. The retail developments across the airport express line and at the new Terminal 3 at the Delhi IGI airport are some of the newer retail formats to be witnessed by Delhi in 2010. These are located at the two metro terminals Shivaji Marg and New Delhi Airport Express Metro station and at the Terminal 3 of the airport and focus on airport travellers, airline crew and visitors to the airport as the primary catchment.

# Q1 2010 INDIA ORGANISED RETAIL MARKET

Diagnosis & Outlook

OUT OF THE TOTAL ANTICIPATED SUPPLY IN 2007, AROUND 42% WAS DEFERRED AND SPILLED OVER TO THE YEARS 2008 AND 2009. SIMILARLY IN 2008 AND 2009, ABOUT 54% AND 78% OF THE ANTICIPATED SUPPLY WAS DEFERRED.

## Noida-Greater Noida

The Noida-Greater Noida belt, with a total expected supply of 4.31 mn.sq.ft, will be the second largest contributor to the upcoming mall supply. Out of the total supply, Noida will witness only 11% i.e. about 0.47 mn.sq.ft. of fresh supply and the remaining 3.84 mn.sq.ft. is expected to come up in Greater Noida. Among the projects scheduled to be completed by the end of 2012, the Grand Venezia Mall with a total built up area of approximately 1.5 mn.sq.ft. and the Omaxe Connaught Place with a built up area close to 0.9 mn.sq.ft. will form a major share of the supply in Greater Noida. A large number of residential and commercial developments are being witnessed in Greater Noida and it is anticipated that in the next few years such developments will act as a catchment factor for the retail projects underway. Some of the notable upcoming projects in the region include the Sonic Mall, MSX Mall and Crystal Mall.

DLF Town Square Mall, a commercial project in Noida Sector 18 is in the planning phase. Due to the slump in the retail industry during 2008-09, work on the project has been deferred. With the total planned area of around 1.5 mn.sq.ft., the project once executed will become a prime destination for retail, entertainment and leisure in Noida and its vicinity.

## Gurgaon

Driven by the IT/ITES sector and supported by the impetus from banking & finance, automobile and strategic consulting firms, the real estate market in Gurgaon, especially the retail segment, has witnessed a substantial growth in the last few years. The success of the

operational malls on MG Road and NH-8 speaks for the huge amount of demand generated from organised retail space in Gurgaon. With developers exploring newer sectors on Golf Course Road, Extended Golf Course Road and Sohna Road for residential and commercial development, the anticipated catchment in these regions has led to the promotion of retail activity as well.

By the end of 2012, Gurgaon is expected to witness a fresh supply of about 3.22 mn.sq.ft. of retail space, which is around 20% of the total expected supply in the NCR. Gurgaon will see most of its upcoming supply in the form of mixed used formats, such as Retail cum Office space. Projects like the Senior Mall and MGF Metropolis on MG Road, R-Mall on Sohna Road and Metro World Mall in Sector 56 are some of the few malls which will operate as pure retail format.

On the other hand, projects like MGF's Emerald Plaza, Palm Square, Digital Greens, JMD Group's Corporate Suites and Spaze Group's Palazzo are examples of projects being developed under the mixed use format of retail cum office space. Out of the total expected supply, around 53% is expected to enter the market in 2010. This is on account of the fact that a few projects that were scheduled to be completed in 2008 and 2009 got delayed due to the global economic slowdown and spilled over to 2010. The slump observed in the retail sector in the NCR led the developers to perceive limited demand for fresh retail space, hence leading to deferment of project construction schedule.

## Ghaziabad

Ghaziabad retail market is expected to witness a supply of about 2.63 mn.sq.ft. of new retail space by the end of 2012, out of which 90% of the supply is estimated to enter the market by the end of 2010. Due to its proximity to East Delhi and Noida, the region enjoys the benefit of a larger catchment for its retail market. Banking on the success of existing malls in Ghaziabad, the developers anticipated a high demand for retail space in the region, as a result of which a large number of projects were launched in the last few years. However, the economic slump had an adverse impact on the retail sector in Ghaziabad, thereby leading to deferment of fresh supply by developers in the region.

Consequently, a substantial amount of delayed supply in the last couple of years is now due to be completed in 2010. Projects like Angel Mega Mall in Kaushambi, Eros Market Place, D-Mall and Express Mall in Indrapuram and Euro Mall are some of the projects slated to be completed in the year 2010. Out of the total expected supply of malls in Ghaziabad, no fresh space is expected to enter the market in the year 2012.





## Faridabad

Faridabad retail market has suffered the most on account of the global economic slowdown. Limited demand for retail space in the region and a huge retail stock lying vacant has led to developers either stalling or completely scrapping their projects. Projects like the MB Mall in Sector 32 and E-Square Mall in Sector 20B, have been taken off from the supply. The MB Mall now has been restructured into an office cum hotel space. Faridabad is expected to have the lowest share in NCR's total upcoming supply. The region is expected to witness only 0.6 mn.sq.ft. of new retail supply by the end of 2012, which is around 4% of the total expected supply in the NCR. The only noticeable retail developments in the region are the Metropolitan Mall by Piyush Group, Achievers Centre Point by Achievers Builders and Ozone Central Mall by SAI Group.

During the last five years, the organised retail sector in the NCR has witnessed most of its growth on account of hectic mall development and developers exploring newer micro-markets in each zone for fresh retail space. From the table 3 it can be highlighted that, during the growth years also, the NCR market was not able to match upto the total anticipated supply for the respective years. Projects had been launched and seen ground breaking, but the developers could not execute and deliver the projects as per the projected time lines. In between 2006 to 2009, the actual supply in the NCR has been short of the anticipated supply planned for that respective year. During the year 2007-09, the actual supply witnessed in the NCR partly comprises supply anticipated in that particular year and partly spilled over from the previous years.

Out of the total anticipated supply in 2007, around 42% was deferred and spilled over to the years 2008 and 2009.

Similarly in 2008 and 2009, about 54% and 78% of the anticipated supply was deferred to the following years. It is because of this high degree of supply spill over, that the NCR will witness a share of 62% of its upcoming supply in 2010.

Total expected supply in the NCR by end-2012 is about 16.14 mn.sq.ft., but looking at the past trend it can be fair to assume that a part of the

total expected supply could be spilled over to the subsequent years, given the fact that the retail sector in the NCR is still recovering from the slump and will take some time to witness accelerated growth.

Table 3  
Supply Lag in NCR

Year	Anticipated Supply (mn.sq.ft.)	Actual Supply (mn.sq.ft.)	Supply Withdrawn (mn.sq.ft.)	Supply Stalled/Deferred (mn.sq.ft.)
2006	1.96	1.05	-	0.91
2007	7.52	5.01	-	3.17
2008	9.61	4.89	-	5.20
2009	7.24	4.03	0.40	5.68

Source: Knight Frank Research

## 4. Rental Profile

During the period of the slowdown, the NCR retail segment saw declining consumer demand, low footfalls and reduced conversion rates in malls. Retailers across the market witnessed an increase in rent to revenue ratio making it difficult for them to bear the high real estate cost.

As a consequence, many retailers vacated their properties or negotiated on existing rent contracts, which led rentals across various micro-markets to decline considerably. Since mid 2008 till Q3 2009, rentals in various micro-markets witnessed corrections in the range of 20-40%. In fact, malls in Rajouri Garden in West Delhi, witnessed correction in rentals by about 42% since its peak in mid 2008. Retail rentals in Gurgaon also declined by about 34% during the same period. Similarly, malls in Noida and Ghaziabad also saw correction in rentals in the range of 22-25%. However, since the last quarter of 2009, the retail rentals are seen stabilizing, and micro-markets like Gurgaon and Noida have witnessed an increase in rentals in the range of 15-25%.

## Mall

Knight Frank Research conducted a primary survey of tenants operating out of malls across Delhi NCR to understand the difference in real estate cost that tenants have to bear across various micro-markets.

Table 4  
Rentals In Operational Malls

Micro-market	Anchor Rentals (Rs./sq.ft. per month)			Vanilla Rentals (Rs./sq.ft. per month)		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Delhi	40	75	59	60	250*	158
Noida - Greater Noida	27	65	47	52	160*	96
Faridabad	30	50	43	50	123	82
Ghaziabad	28	70	45	45	160	88
Gurgaon	40	70	49	40	225*	117

Source: Knight Frank Research

\* Indicates average maximum rentals. Rentals could be higher in certain cases.

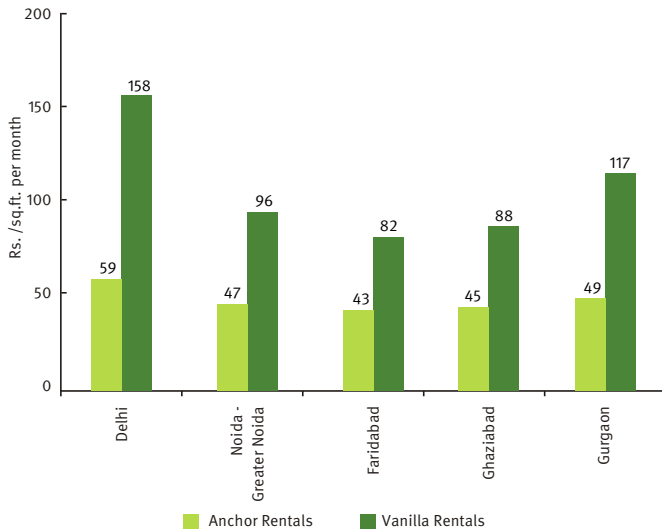


# Q1 2010 INDIA ORGANISED RETAIL MARKET

## Diagnosis & Outlook

Figure 7

### Average Mall Rentals



Source: Knight Frank Research

The variation observed in rentals for Vanilla and Anchor tenants in the NCR in are stated in table 4.

Delhi, being the most sought after retail destination in the NCR, commands the highest average mall rentals for both vanilla and anchor tenants. The average mall rental for vanilla tenants in Delhi is about Rs.158/sq.ft. per month, which is about 35% higher than Gurgaon and about 64% higher than Noida-Greater Noida. Average rentals paid by vanilla tenants in Gurgaon and Noida-Greater Noida are in the range of Rs.117/sq.ft. per month and Rs.96/sq.ft. per month respectively. Rentals paid by tenants in Faridabad and Ghaziabad are the lowest as compared to other parts of NCR and are in the range of Rs.82/sq.ft. per month and Rs.88/sq.ft. per month respectively.

As anchor tenants occupy larger retail spaces in a mall as compared to the vanilla tenants, rent paid by such tenants is lower than that of a vanilla store. From the stock survey, it was found that anchor tenants across Gurgaon and Delhi pay average rentals of about Rs.49/sq.ft. per month and Rs.59/sq.ft. per month respectively, while anchor tenants in Noida-Greater Noida, Ghaziabad and Faridabad pay rentals of Rs.43-47/sq.ft. per month, which is about 24% lesser than that of Delhi.

It has generally been observed that, rent on the ground floor of a mall is the maximum while it is lower on the other floors. Analyzing the rental data collected during the tenant survey across various micro-markets, it was observed that in Delhi rentals on the first floor are generally 12.5% lesser than those on the ground floor, which further decline by 30% on the second floor. In Noida-Greater Noida rentals on the first floor are about 24% lesser than those on the ground floor and further decline by 13.5% on the second floor. In Ghaziabad, rentals generally decline by 15% on each of the higher floors. In Gurgaon

ground floor rentals are substantially higher than those on the first floor and a variation of about 22% has been observed. Rentals on the second floor decline further by around 13.5%. This differential in floor wise rental is observed due to the fact that retailers on the ground floor enjoy prime location advantage and better visibility in a given mall and hence have to pay a premium in the form of higher rentals.

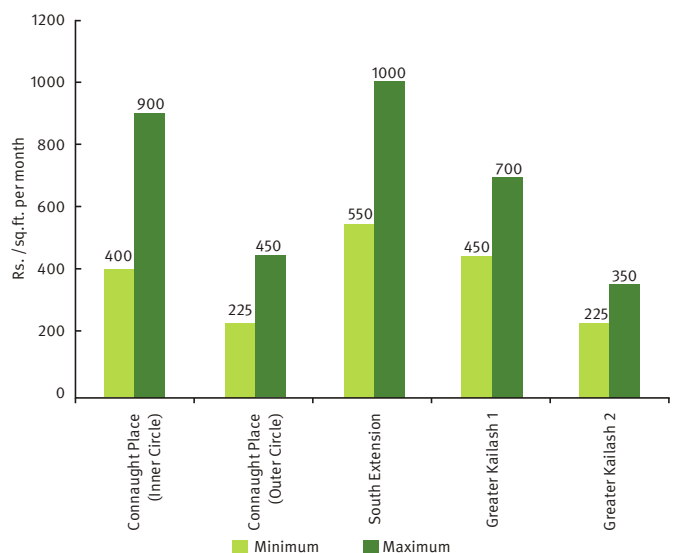
Food court is one of the key formats in a mall, which attracts footfalls. Malls in Delhi-NCR have food courts with areas ranging in between 10,000-22000sq.ft. Malls like the Ambience Mall and Great India Place have bigger food courts with a total area over 40,000 sq.ft. Rentals for food courts are generally lower than that of the vanilla store. Rental values for food courts observed in the NCR are in the range of Rs.40-45 /sq.ft. per month on the lower side, going maximum up to Rs. 75-80/sq.ft. per month. During the last couple of years, retailers in Delhi NCR have adopted a new rental format i.e. the “revenue sharing” format. As the retail market has suffered the most during the economic recession, the retailers, to lower down the burden of real estate cost on their sales, have adopted this new rental format. In a revenue sharing model, the retailer has to pay some basic fixed amount per.sq.ft. known as “minimum guarantee” and a certain percentage of revenue as a variable component over and above the minimum guarantee.

## Highstreet

Highstreet rentals across Delhi are much higher as compared to the mall rentals. Connaught Place inner circle due to its location advantage and heritage value commands high rentals in the range of Rs.400-900/sq.ft. per month and about Rs.225-450/per sq.ft. per month for stores in the outer circle.

Figure 8

### Highstreet Rentals



Source: Knight Frank Research



South Extension, one of the key shopping destinations in South Delhi commands high rental values in the range of Rs.550-1000/sq.ft. per month.

Rentals in South Extension have appreciated considerably over the years and have surpassed those of Connaught Place. It should, however, be noted that store sizes in South Extension are much smaller than those of Connaught Place. Other retail markets like Greater Kailash I & II, located in South Delhi, command rentals in the range of Rs.225-700/sq.ft. per month, the wide range depicting the variation in the location of the store. Stores in Greater Kailash II, which is more of a Food & Beverage dominated market command much lesser rentals as compared to stores in Greater Kailash I. Meanwhile, Noida Sector 18 market, one of the key shopping zones in Noida commands rentals in the range of Rs.150-300/sq.ft. per month.

## 5. Product Category Distribution

During the course of the study, a number of facts came to light regarding the tenants' profiles in a mall as well as in a highstreet. The findings have been listed in the following sections:

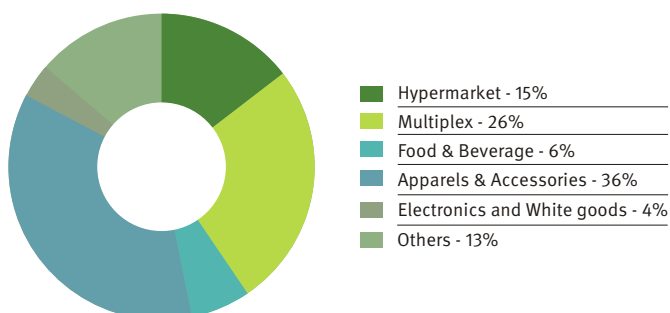
### Mall

The average occupancy rates for operational malls in each of the micro-markets across Delhi NCR. Ghaziabad, with limited number of malls, has the highest occupancy rate of about 87%, while Delhi and Gurgaon, due to its huge mall stock is observing occupancy levels at around 72% and 73% respectively. Most of the newly operational malls in Faridabad have ample vacant spaces, due to which the occupancy levels in Faridabad are around 61%.

On the product categorization front, figure 6 classifies the major anchor stores within Delhi NCR and reflects the share of each of the category in terms of space occupied. As is evident from figure 6, apparel and accessory stores occupy the most space in terms of anchor occupied area across the mall in Delhi NCR, to the tune of around 36%.

Figure 9

### Product Category Distribution - Anchor Tenant



Source: Knight Frank Research

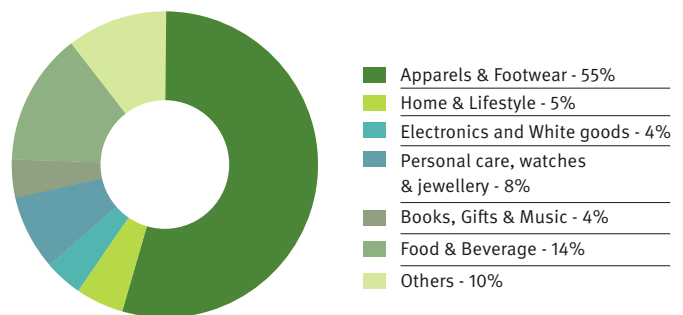
Brands like Lifestyle, Tata Westside, Shoppers Stop and Pantaloon are some of the key players to operate as apparel anchor tenants in the Delhi NCR market. Over the years brands like Reliance Trends have also ventured into the market. Besides, international apparel brands like Marks & Spencer and Debenhams are also operating as anchor tenants in a few malls in NCR. Multiplex is another important anchor category that attracts major footfalls in a mall. At present, a number of multiplex operators like PVR Cinemas, DT Cinemas, INOX and Big Cinemas occupy space in large retail projects in the NCR. They have the second largest share of about 26% in terms of anchor space in Delhi NCR.

Hypermarket formats in the NCR have been gaining popularity over the last few years. Major brands like the Future Group's Big Bazaar, RPG Group's Spencer and Reliance Marts by Reliance Group have been operating as hypermarket stores in the NCR. This format contributes about 15% to the total share of anchor area in malls, while Food & Beverage and Electronic & White goods category have a share of about 6% and 4% respectively.

Home furnishing stores like Home Town Store and Ebony Gautier Store are classified as other tenants, which form the remaining 13% of the area occupied by anchor tenants in malls.

Figure 10

### Product Category Distribution - Vanilla Tenant



Source: Knight Frank Research

Vanilla format is generally a store with a much smaller area as compared to that of an anchor store and is generally a focused utility store. Within Delhi NCR, the vanilla stores operating under the apparel and footwear category have the largest share in terms of area occupied and contribute 55% to the total mall space occupied by vanilla tenants.

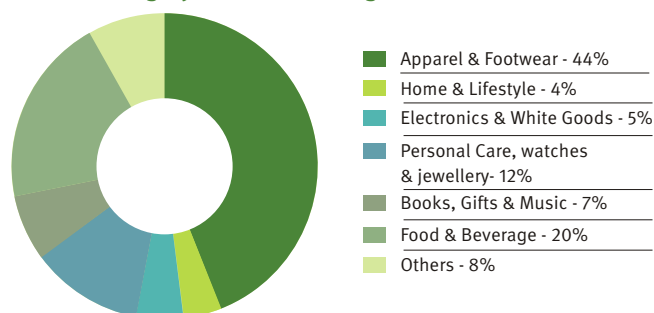
Food & Beverage outlets like restaurants, fast food joints, pubs & clubs and juice outlets contribute about 14% to the total space occupied by vanilla tenants, whereas personal care stores like Salons and Watch & Jewellery stores have a share of about 8%. Electronic & White good stores and Home & Lifestyle stores contribute about 4% and 5% respectively to the total occupied mall space.

# Q1 2010 INDIA ORGANISED RETAIL MARKET

## Diagnosis & Outlook

Figure 11

### Product Category Distribution - Highstreet



Source: Knight Frank Research

## Highstreet

Retailers in two important highstreets, Connaught Place and South Extension were mapped and in case of highstreets, the study entailed only the product categorization of stores and not the area covered, as done in case of the malls.

The survey results highlight the fact that even in highstreets, the share of apparel and footwear stores is the highest, accounting for 44% of the total number of retail stores on the two highstreets. This is followed by Food & Beverage outlets and Personal care, Watches & Jewellery stores contributing about 20% and 12% respectively.

Electronic & White goods and Home & Lifestyle categories have the least number of stores contributing around 5% and 4% respectively to the total number of retail stores on the select highstreets of the NCR.

## 6. Mall: Operational Profile

The study also conducted an operational profiling of stores in malls and took in to account factors such major costs involved as well as the revenue generated in the form of Average Trading Density.

The analysis of the tenant survey highlights the fact that for a retail store operating in a mall, the real estate cost in terms of rentals and maintenance charges affect their profitability in a big way.

Table 5

### Rent as a percentage of Revenue

Micro-market	Rent as a percentage of Revenue	
	Vanilla (%)	Anchor (%)
Delhi	14	10
Noida - Greater Noida	12	10
Faridabad	16	11
Ghaziabad	13	9
Gurgaon	16	11

Source: Knight Frank Research

The table 5 highlights the rent to revenue ratio for vanilla and anchor tenants as per the micro-markets. The rent to revenue ratio for anchor tenants across all micro-markets in the NCR lies in the range of 9% to 11%. The rent to revenue ratio for anchor stores is lower than that of the vanilla stores. Rent to revenue ratio for vanilla stores is in the range of 12-16%. Within the NCR, vanilla stores in Gurgaon have the highest rent to revenue ratio, at 16% while Noida-Greater Noida and Ghaziabad have a rent to revenue ratio in the range of about 12% to 13%.

Table 6 highlights the common area maintenance (CAM) charges paid by tenants in malls across Delhi NCR. These charges are borne by tenants as a cost to maintain the common areas in a mall like the lobby, lifts, atrium, green belt, etc. For vanilla tenants, the CAM charges work out to Rs.14-22/sq.ft. per month, while anchor tenants have to pay CAM charges in the range of Rs.12-19/sq.ft. per month.

Table 6

### CAM Charges (on Saleable Area)

Micro-market	CAM charges (Rs/sq.ft. per month)	
	Vanilla	Anchor
Delhi	22	17
Noida - Greater Noida	21	18
Faridabad	14	12
Ghaziabad	19	19
Gurgaon	22	19

Source: Knight Frank Research

A good indicative of a store's performance in a mall is the average trading density of that store. Average Trading Density is defined as sales per sq.ft. per month for a particular store. Higher the average trading density better is the store's performance. It can be noted from table 7, that the average trading density for an anchor store in the NCR is around Rs.394-492/sq.ft. per month.

This variation is observed because of the fact that different product categories have different average trading densities. Also, the degree of penetration of brands in different product categories in a given micro-market can lead to variations in the trading density. Anchor tenants in Delhi have higher trading densities than those compared to the stores in Gurgaon, Ghaziabad, Faridabad and Noida-Greater Noida.

Table 7

### Average Trading Density in Malls (On Saleable Area)

Micro-market	Average Trading Density (Rs/sq.ft. per month)	
	Vanilla	Anchor
Delhi	724	492
Noida - Greater Noida	626	419
Faridabad	597	394
Ghaziabad	621	398
Gurgaon	650	410

Source: Knight Frank Research



This can be attributed to the fact that average footfall and conversions of malls in Delhi are higher than the other markets. The average trading density of vanilla stores in the NCR ranges between Rs.597-724/sq.ft. per month. Average trading density for vanilla stores is the highest in Delhi and is about 11% to 21% higher than other micro-markets in the NCR.

## 7. Outlook

Since Q3 2009, the Indian economy has been showing signs of stability, thereby creating a positive impact on consumers' sentiments as well as on the retail industry. Rentals across micro-markets have stabilized and are even witnessing appreciation in some markets of Delhi and Gurgaon. Leasing activity across malls and highstreets has picked up since the last two quarters 2009. Construction activity of most of the retail projects has gathered momentum. In addition to the traditional approach of building a mall-cum-multiplex mixed use model, developers are now contemplating projects across the NCR which have dedicated commercial office space within the same premise.

Most of the upcoming retail supply in Gurgaon is mixed use format, comprising retail space clubbed with office space. Majority of the projects under construction in this region are located around MG Road and Sohna Road.

Rental values across micro-markets are witnessing an upward trend, but such a phenomenon is notable in properties that are operating at low vacancy levels. It has been anticipated that with an improvement in the retail market, rentals shall increase further, albeit only in those malls with high footfalls or with diversified catchment. However, mall rentals are not expected to witness high rate of appreciation, as experienced during the boom period of 2006 & 2007. This can be

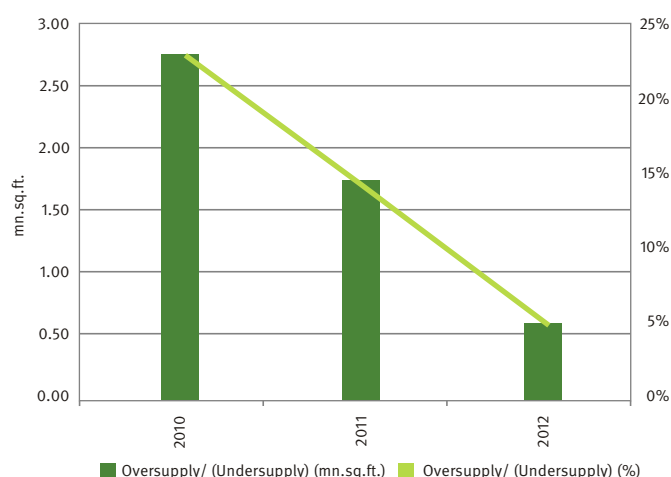
attributed to the huge supply in the pipeline, close to 16.14 mn.sq.ft. of fresh retail space which is expected to enter the market by the end of 2012. It can be mentioned that majority of the supply is coming up in locations like Ghaziabad, Gurgaon, Delhi and Greater Noida. On the other hand, even though leasing activity has picked up, the sizeable vacant stock in malls of various micro-markets of the NCR still remains a major concern.

Real estate cost of operating a store in a mall is a big cost component affecting profitability of the retailers. To keep a check on the outflow of such costs and link it to the store performance, most of the retailers are now entering into a lease contract which is a revenue sharing format and not a pure rental agreement. It is anticipated that in the forthcoming months, this model shall be accepted more widely by retailers and mall developers across various micro-markets in the NCR.

The city of Delhi contributes towards 36% of the total stock in the National Capital Region (NCR) while also accounting for 33% of the upcoming supply over the next 3 years; this makes Delhi the biggest contributor towards stock and supply from all the cities in the NCR. As a result, Knight Frank Research decided to base its Retail Demand Supply Forecast Model solely on the city of Delhi. This model was built in order to realise whether there is a gap between the demand and supply for retail spaces in Delhi. Through this model, we estimated what the organised Retail Market (ORM) would be for the next 3 years (2010-2012) while also forecasting the Real Estate Retail Potential (RERP) during the same period. Based on our calculations, the ORM will grow from Rs. 72 billion in 2009 to Rs. 143 in 2012. Similarly, the RERP will grow from Rs. 70 billion in 2009 to Rs. 150 billion in 2012 since we have estimated there to be a supply influx of 5.39 mn.sq.ft. during the next three years. This would create an oversupply of 23% of the organised retail stock in 2010. From the model, we also calculated the oversupply to be 0.60 mn.sq.ft. in 2012. However, this oversupply will be only 5% of the organised retail stock, and can be considered low, showing that it decreases from 2010 till 2012. This is beneficial to the retail industry in Delhi and helps in maintaining the demand-supply equation.

Figure 12

### Delhi: Retail Real Estate Scenario



Source: Knight Frank Research

WE CALCULATED THE OVERSUPPLY TO BE 5% OF THE ORGANISED RETAIL STOCK IN 2012, SHOWING THAT IT DECREASES FROM 2010 TILL 2012.

# Q1 2010 INDIA ORGANISED RETAIL MARKET

Diagnosis & Outlook

## MUMBAI

### 1. Market Review

Mumbai bears the tag of being the financial capital of the country and contributes around 5% of the country's GDP. The city is home to important financial institutions like the Reserve Bank of India, the Bombay Stock Exchange and the National Stock Exchange. Besides being the entertainment capital of the country, the city has rich cosmopolitan demographics. These factors also ensure that the city remains foremost in terms of the real estate development. The region referred to as Mumbai Metropolitan Region (MMR), covers the city of Thane and Navi Mumbai along with Mumbai city.

Mumbai, which houses the first Mall in the country, has a total organised retail stock of 8.72 mn.sq.ft. and will witness 11.26 mn.sq.ft. of new retail development over the next 3 years. The city is home to some of the most prominent and successful malls in the country and the retail rentals are amongst the most expensive in the world.

While the size of the consumer market in the city is particularly large, the pace of retail real estate development has outgrown the organised retail business over the last 4-5 years. This situation, coupled with the global financial crisis in 2008, forced retailers to curtail their expansion plans and put some large retailers on the brink of bankruptcy. While the confidence of the retailers was shaken, the mall projects in the city were stalled due to poor liquidity. Retail and commercial projects of the city were on a negative list of the institutional lenders which made situation worse for commercial real estate segment.

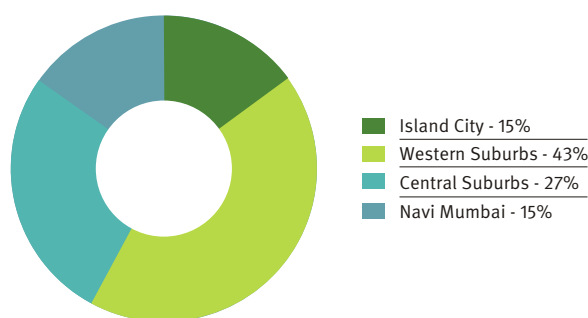
While the situation has improved since mid 2009, the retail space vacancy across the city still remains high. Many mall projects have been marred because of poor design and also high concentration of malls in particular catchment area. Taking cognizance of the poor demand situation, some malls with high vacancy have started leasing space to office occupiers instead of waiting for retailers.

### 2. Operational Mall Analysis

Mumbai currently has 8.72 mn. sq.ft. of major operational mall space in the city. These malls are spread all over the city, stretching from Nariman Point in South Mumbai to Bhayander in the Western Suburbs and Kalyan in the Central Suburbs. The city of Mumbai is divided into 4 zones: Island City, Western Suburbs, Central Suburbs and Navi Mumbai. The malls in these zones have been analyzed and their characteristics have been studied in order to provide a thorough examination of mall space in Mumbai. A break up of the major micro-markets falling under each zone is in Table 8 while Figure 13 shows a distribution of the stock amongst the zones in Mumbai:

Figure 13

#### Distribution of retail stock



Total Area 8.72 mn.sq.ft.

Source: Knight Frank Research



Table 8

**Zonal classification**

Zone	Locations
Island City	Nariman Point, Haji Ali, Worli, Lower Parel, Dadar, Mahim
Western Suburbs	Bandra, Santacruz, Andheri, Goregaon, Malad, Borivali, Dahisar, Mira Road- Bhayander stretch
Central Suburbs	Matunga, Chembur, Ghatkopar, Mulund, Thane, Kalyan, Bhandup
Navi Mumbai	Airoli, Vashi, Kharghar

Source: Knight Frank Research

## Island City

As mentioned in the table, the Island City zone of Mumbai encompasses all of South Mumbai, Worli to Nariman Point, as well as Prabhadevi, Dadar and Mahim. The major micro-markets covered in the Island City are Nariman Point, Worli-Prabhadevi, Lower Parel and Haji Ali-Kemps Corner. Some of the major malls in the zone include High Street Phoenix located at Lower Parel and Atria Mall located at Worli.

Since the Island City is considered to be a fairly up market residential area, there are a large number of national and international brands present here. Two out of the three major highstreets that were covered in this study are present in this zone, further enhancing this zone's exclusive status.

Crossroads, the first mall in the country, located at Haji Ali was shut down and bought by the Future Group in 2006 to convert it into office space with some amount of retail space as well. The initially unorganised retail space has now been organised and is referred to as SoBo (South Bombay) Central Mall, having a built up area of 0.1 mn. sq.ft. This name of the retail space was given as recently as 2009. Currently, there is just a fraction of the space that is used commercially, with the majority comprising retail space. This zone saw the development of a new mall called Palladium, which is the newest part of the High Street Phoenix Mall at Lower Parel. It is referred to as Phase 3, came into operation in 2009 and has a built up area of approximately 0.2 mn. sq.ft.

The Island City only accounts for 15% of the major operational malls in Mumbai with a total built up area of 1.3 mn. sq.ft. As mentioned earlier, owing to the large volume of organised retail in this zone, there is a lack of dependence on mall space. Furthermore, the average mall vacancy is only 4% since there are only 5 major malls in the Island City. With a smaller number of malls in the zone, it is unlikely that any of them would operate without full capacity.



Mega Mall, Mumbai

## Western Suburbs

Some of the major micro-markets falling under the Western Suburbs include Santacruz, Linking Road in Bandra, Andheri, Malad, Goregaon and Kandivali. All of the major operational malls in this zone were covered, like Infinity Mall, Inorbit Mall and Oberoi Mall.

In the last twelve months, only one new mall entered this zone- V Souk Mall located in Kandivali West with a built up area of 0.2 mn. sq.ft. However, 2008 saw a massive influx of mall space in this zone. Major malls that came into operation then were Oberoi Mall, Mega Mall, Crystal Point Mall and Thakur Mall.

The dominant micro-markets in the Western Suburbs are Andheri (west) and Malad (west) with these 2 micro-markets accounting for 6 large malls. A reason for this could be the lack of organised retail in these spaces and hence the need for large malls. Another reason could be the fact that a lot of individuals in these areas have an income higher than individuals in the smaller micro-markets and therefore mall space is necessary. Similar to the Island City, no major operational malls have been shut down in the last twelve months.

**MUMBAI CURRENTLY HAS 8.72 MN. SQ.FT. OF MAJOR OPERATIONAL MALL SPACE IN THE CITY, WITH THE WESTERN SUBURBS CONTRIBUTING TOWARDS 43% OF THIS STOCK.**



# Q1 2010 INDIA ORGANISED RETAIL MARKET

Diagnosis & Outlook

## North Mumbai



### UPCOMING

1. Harmony
2. Infinity-II
3. E-Zone Mall
4. 10 Centre Mall
5. Express Zone
6. Magnet Mall
7. The Dreams Mall
8. Nirmal Lifestyle Ph-II
9. Korum Mall
10. Lake City Mall Ph-II
11. R Mall-II
12. Big Shopping Centres
13. Growel Plaza
14. Viva City Mall

### EXISTING

1. Crystal Point Mall
2. V Souk Mall
3. Thakur Mall
4. Oberoi Mall
5. Infinity-I
6. Mega Mall
7. Inorbit Mall
8. Evershine Mall
9. Raghuleela Mall
10. Growel Plaza-I
11. The Hub
12. Cinewonder Mall
13. Lake City Mall Ph-I
14. R Mall
15. Eternity Mall
16. Nirmal Lifestyle Ph-I

The Western Suburbs account for 43% of mall space in Mumbai, the maximum of all the four zones. In all, this zone covers over 3.7 mn. sq.ft. of operational mall space, with Oberoi Mall, situated in the micro-market of Goregaon, having more than 0.6 mn. sq.ft. of mall space. This zone has the most number of malls as well, housing 14 major operational malls. The vacancy rates in this zone are a lot higher than what was witnessed in the Island City. Here, the average mall vacancy is around 21%, primarily due to the fact that a lot of the malls became operational within the last 2-3 years and have not found enough retailers yet. Some of the older malls, like Inorbit Mall designed by K Raheja Corporation and Growel's 101 designed by Garuel & Weil, have a 0% vacancy.

## Central Suburbs

The major micro-markets that were taken into consideration while studying the Central Suburbs are Matunga, Chembur, Ghatkopar and Mulund. The micro-markets of Thane and Kalyan, although normally considered an independent zone, were clubbed along with the Central Suburbs.

Over the past year, the major malls that became operational in this zone were K Star Mall in Chembur with a built up area of 0.16 mn. sq.ft., and R City Mall in Ghatkopar having a built up area of 0.45 mn. sq.ft. Both malls are retail only projects, containing multiplexes on the top floor. Similar to the Island City and Western Suburbs, no major operational malls were shut down during the last twelve months.

Thane is an extremely dominant micro-market in this zone. This is because Thane has seen major development in terms of residential real estate. The micro-market has exponentially grown towards the Ghodbunder Road with large scale residential projects coming up in the last few years. The rising residential catchment has created a need for quality retail space and hence this micro-market has seen an influx of new malls.

Central Suburbs come second to the Western Suburbs in terms of area occupied in Mumbai, accounting for 27% of the total stock in the city.





## South Mumbai



### UPCOMING

1. Star Mall
2. Kohinoor Mall
3. R City Ph-II
4. R Odeon
5. Glomax Mall
6. Phoenix Market City

### EXISTING

1. R City Ph-I
2. Hi Life Mall
3. K Star Mall
4. Inorbit Mall
5. Raghuleela
6. Little World
7. High Street Phoenix
8. Atria Mall
9. Orchid City Centre Mall
10. Nakshatra Mall
11. Milan Mall
12. Palm Beach Galleria
13. City Centre Mall
14. Centre One Mall

The Central Suburbs have mall spaces aggregating to 2.4 mn. sq.ft. but also have a high average mall vacancy, measuring approximately 29%. This is far higher than any of the other zones in Mumbai. A reason for this high vacancy could be poor planning and designing of some of these malls. With poor designs, people do not necessarily visit the full mall as it gets very complicated for them to find their way around. Retailers were unwilling to occupy a space which is difficult for consumers to get to and hence those stores remain vacant. This is a possible explanation for the unusually high vacancy rate in the Central Suburbs.

Table 9

### Mall Vacancy

Micro-market	Mall Vacancy
Island City	4%
Western Suburbs	21%
Central Suburbs	29%
Navi Mumbai	19%

Source: Knight Frank Research

## Navi Mumbai

The major micro-markets that fall under the Navi Mumbai zone are Airoli, Vashi and Kharghar. There are only 6 major operational malls in this zone. Of the 6 major malls, Inorbit Mall became operational in 2009 and has a very low vacancy rate; it is purely a retail project. All the other 5 malls opened up in 2007-2008, hence all the malls in this zone are relatively new malls. There were no major operational malls that shut down in the last twelve months.

Vashi is clearly the dominant micro-market in this zone, housing 5 out of the 6 major malls. With the formation of Navi Mumbai, Vashi was one of the major areas in that zone as it was seen as an entry point for commercial activity. With an increase in commercial activity, there was a subsequent increase in residential demand. And with an increase in commercial as well as residential demand in that micro-market, the retail activity was forced to gather pace. Hence, more malls are noticed in Vashi than any other micro-market in Navi Mumbai.

# Q1 2010 INDIA ORGANISED RETAIL MARKET

## Diagnosis & Outlook

As mentioned earlier, Navi Mumbai has relatively new malls and hence it only accounts for 15% of the total retail space in Mumbai, covering 1.28 mn. sq.ft. of mall space. Vacancy in Navi Mumbai is also relatively low, at 19% average mall vacancy. This number translates to approximately 237,000 sq.ft. of total mall vacancy in the zone. One reason behind this vacancy could be the size of the malls. Most of the malls in Navi Mumbai are relatively small in size, hence it is not possible to house tenants of all product categories. Retailers do not wish to be a part of malls that cannot house other product categories since that mall will not offer the consumers a complete shopping experience. Hence, some retailers are hesitant to enter these malls and this could be a potential reason behind the vacancy.

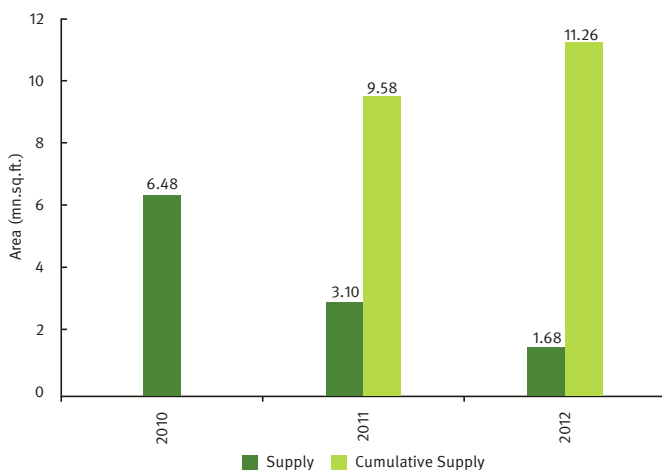
### 3. Upcoming Supply Analysis

Mumbai is set to witness a staggering 11.26 mn. sq.ft. of fresh retail space in the next three years- 2010 to 2012. A possible reason behind such a huge amount of retail space entering the market could be the fact that during the recent economic crisis, a number of projects were stalled by developers. Now, with the economy on a sounder foot, developers are keen to finish those stalled projects along with building new projects. Hence the city is set to witness a great influx of retail space in the next three years. Of the estimated 11.26 mn. sq.ft., approximately 6.4 mn. sq.ft. should be available by the end of 2010, with another 3.1 mn. and 1.6 mn. set to come up by the end of 2011 and 2012 respectively.

The Central Suburbs of Mumbai should experience maximum supply infusion over the next three years. The zone would account for almost 7 mn. sq.ft. of retail space, roughly 62% of the total upcoming retail space in Mumbai. The micro-market of Thane, which has been considered to be a part of the Central Suburbs, would be accountable

Figure 14

#### Year-wise distribution of supply

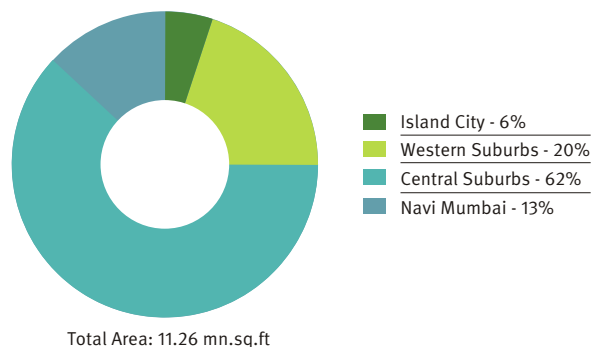


for 1.93 mn. sq.ft. of retail space. Thane has recently experienced a great infrastructural boost and enhanced connectivity which has made projects easier to develop. This could be a factor behind the relatively higher number of scheduled projects. One major project planned to come up by 2011 is by Sheth Developers. The mall will be called Viva City with a built up area of 800,000 sq.ft.

The Western Suburbs are the next most favoured destination for upcoming malls. Yet, this zone still accounts for only 20% of the upcoming retail space in Mumbai with a total built up area of 2.26 mn. sq.ft. This shows how greatly the Central Suburbs dominate the imminent mall space. The largest project in Western Suburbs should be witnessed in the micro-market of Malad (west), where a 400,000 sq.ft. project should be completed by end of 2011. Even though there are as many as 14 malls coming up in the Western Suburbs, none of them have a particularly large built up area. The average size of all the 14 major upcoming malls is around 160,000 sq.ft. so it is clear that the 400,000 sq.ft. project is by far the largest.

Figure 15

#### Distribution of upcoming supply (2010-12)



Source: Knight Frank Research

Navi Mumbai accounts for only 13% of imminent retail space in Mumbai, with a total built up area of approximately 1.4 mn. sq.ft. A major project that is scheduled to be developed by 2010 will be in the micro-market of Kharghar. The Green Valley Home Developers are planning on building the Glomax Mall which will have a built up area of 350,000 sq.ft. Another key project will be witnessed in the Vashi micro-market, where Fantasia Nano Shopping will be developed by Haware Builders and will occupy a total space of 250,000 sq.ft. This project is also scheduled to be developed by 2010 and will have a small portion of commercial space as well.

The Island City too experiences a very low built up area of upcoming retail space. There are only 3 projects scheduled to come up in the next 3 years (2010-2012) in this zone and hence the Island City accounts for only 620,000 sq.ft. or 6% of the total upcoming supply. A possible reason behind this surprisingly low amount of upcoming mall space could be the fact that the Island City has a large proportion of organised retail.



MUMBAI IS SET TO WITNESS A STAGGERING 11.26 MN. SQ.FT. OF FRESH RETAIL SPACE IN THE NEXT THREE YEARS- 2010 TO 2012. OF THIS ESTIMATED SUPPLY, APPROXIMATELY 6.4 MN. SQ.FT. SHOULD BE AVAILABLE BY THE END OF 2010, WITH ANOTHER 3.1 MN. AND 1.6 MN. SET TO COME UP BY THE END OF 2011 AND 2012 RESPECTIVELY

Since there are a number of prominent highstreets along with a high volume of standalone properties, the need for large mall spaces is reduced. The largest project in this zone will be seen in Wadala where a 500,000 sq.ft. mall is scheduled to come up in 2011. The Wadia Group is in the process of building the Bombay Dyeing Mall. There is a clear lack of mall space in this zone and based on our numbers, the next three years will not see a great influx of retail space.

While looking at the larger upcoming malls across Mumbai, there are two properties that stand head and shoulders above the others. The micro-market of Kurla West (situated in the Central Suburbs) is going to witness a project of 1.6 mn. sq.ft. built up area and will be complete by the end of 2012. This is going to be a retail project containing a multiplex on the top floor. The project is going to be called Phoenix Market City and is being built by Phoenix Developers. The second large project that is currently under construction will become available in Bhandup West (also in the Central Suburbs) by 2010. This is also going to be a 3 storey mall with a multiplex on the top floor. The developer is Satra Group and the mall will be called The Dreams Mall. This mall is going to be approximately 1 mn. sq.ft. large.

Table 10  
Supply Lag in Mumbai

Year	Anticipated Supply (mn.sq.ft.)	Actual Supply (mn.sq.ft.)	Supply Withdrawn (mn.sq.ft.)	Supply Stalled/Deferred (mn.sq.ft.)
2006	4.64	0.36	-	4.28
2007	7.33	1.05	0.83	6.50
2008	3.67	3.13	1.37	2.10
2009	8.02	2.93	-	6.03

Source: Knight Frank Research

From analyzing Table 10, it is clear to understand that the Anticipated Supply for any particular year, very rarely turns into the Actual Supply. The years 2006 and 2007 were particularly difficult for developers, as 4.28 mn. sq.ft. and 6.50 mn. sq.ft. of retail space respectively, was stalled or deferred. Although 2008 saw an Actual Supply of 3.13 mn. sq.ft., there was still approximately 3.47 mn. sq.ft. of supply that was withdrawn or stalled. 2009 saw greater delays in retail projects where 75% of the anticipated supply was stalled or deferred; approximately 6 mn. sq.ft. of the anticipated 8 mn. sq.ft. failed to enter the market. The above-mentioned Dreams Mall in Bhandup, which is highly anticipated amongst consumers, had to reschedule its opening from 2008 to 2010. While the reasons for all these delays vary from a lack of funds, to poor planning and designing, the fact remains that retail projects are very often delayed.

2009 SAW GREATER DELAYS IN RETAIL PROJECTS WHERE 75% OF THE ANTICIPATED SUPPLY WAS STALLED OR DEFERRED; APPROXIMATELY 6 MN. SQ.FT. OF THE ANTICIPATED 8 MN. SQ.FT. FAILED TO ENTER THE MARKET.

# Q1 2010 INDIA ORGANISED RETAIL MARKET

## Diagnosis & Outlook

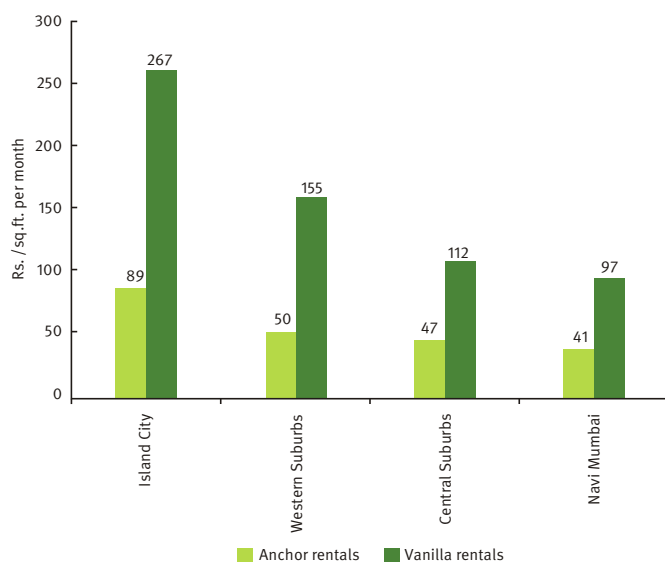
### 4. Rental Profile

#### Mall

While considering the anchor tenant rentals across the zones in Mumbai, it is clear that their average monthly rentals range from Rs. 41-89/sq.ft. per month. While this is not a very large range, it is also worth noting that rentals in the Island City are considerably higher than rentals in Navi Mumbai. It stems from the value of property in the two zones, with the Island City containing significantly higher property values than Navi Mumbai. This scenario is evident while looking at the Vanilla tenant rentals as well. The average monthly rentals range from Rs. 97-267/sq.ft. per month. Once again, the Island City has the highest rentals with Navi Mumbai having the lowest rentals. It is also worth mentioning that anchor tenants in the Island City pay almost the same amount of rent as vanilla tenants do in Navi Mumbai. This proves the disparity between the two zones and clearly indicates where the property prices are higher.

Figure 16

#### Average Mall Rentals



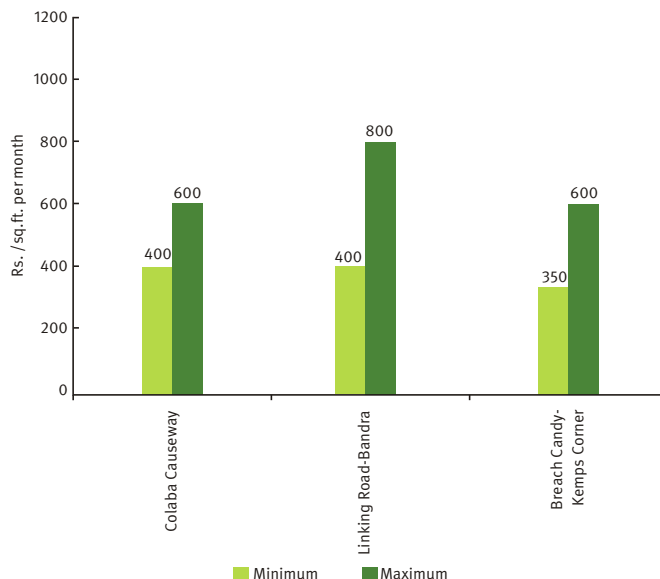
Source: Knight Frank Research

A brief look at the floor-wise variations between anchor and vanilla tenants makes it clear that stores on the lower levels command much higher rentals than stores on the higher levels. This is only normal with the lower level floors attracting a significantly larger footfall than the upper level stores. This variation is clearly noticed in anchor as well as vanilla tenants, with the same theory applying to both. Vanilla tenants on the lower levels of malls are amongst the highest rent payers of all the tenants in the malls, with their small stores generally attracting the highest footfalls in the mall.

While observing Mumbai, as a whole, the rental values in malls have actually appreciated by around 9% during the period March 2009-February 2010. This is relatively surprising since during the same period, the national average saw prices depreciate by around 30%. This proves that even though the rest of the country was forced to slash prices due to low turnover from malls, Mumbai was still functioning normally, with prices not only remaining constant but even rising in certain micro-markets.

Figure 17

#### Highstreet Rentals



Source: Knight Frank Research

Table 11

#### Rentals In Operational Malls

Micro-market	Anchor Rentals (Rs./sq.ft. per month)			Vanilla Rentals (Rs./sq.ft. per month)		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Island City	55	120	89	140	575	267
Western Suburbs	30	85	50	80	250	155
Central Suburbs	30	117	47	40	160	112
Navi Mumbai	30	50	41	60	170	97

Source: Knight Frank Research



## Highstreet

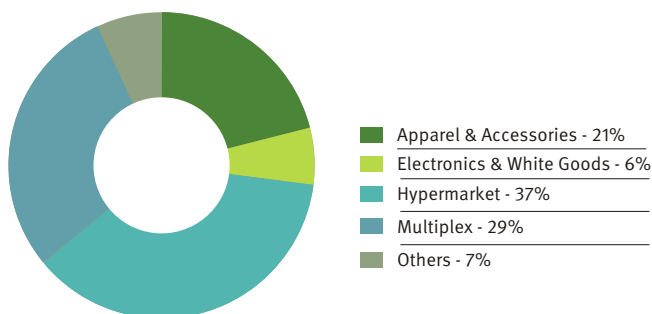
During the same period (Mar '09- Feb '10), rentals in highstreets appreciated by around 8% in Mumbai. While analyzing the rental values at a highstreet level, there were 3 major highstreets that were taken into consideration- Breach Candy/Kemp's Corner, Colaba Causeway and Linking Road- Bandra. The first two fall under the Island City zone while the latter comes under the Western Suburbs. The average minimum rentals ranged from Rs. 350-450/sq.ft. per month, while the average maximum rentals ranged from Rs. 600-800/sq.ft. per month.

## 5. Product Category Distribution

While studying the product classification of anchor and vanilla tenants in malls, along with the tenants in the major highstreets, a number of interesting facts came to light.

Figure 18

### Product Category Distribution - Anchor Tenant



Source: Knight Frank Research

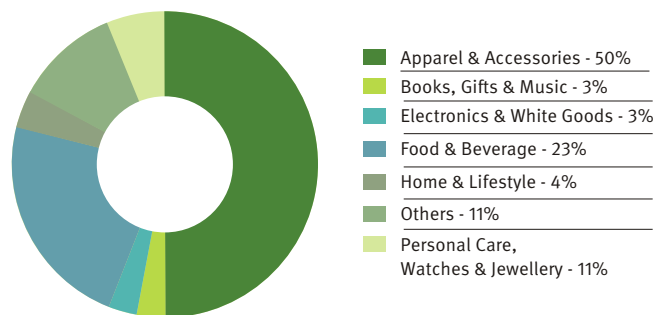
## Mall

A look at the major anchor tenants in malls shows that hypermarkets dominate this section. By definition, a hypermarket is a store that combines a supermarket with a department store. Some of the major hypermarkets in Mumbai include Big Bazaar, Food Bazaar and Hypercity and these contribute towards 37% of the total area occupied by anchor tenants in malls within Mumbai. Given the fact that hypermarkets meet a variety of the customers' needs, it is no surprise that most of the larger malls in Mumbai have at least one hypermarket. Their high footfall makes them a very appealing prospect for mall managers while their large size means they occupy a considerable area. Hypermarkets are also known to cater to the mid-income category of consumers, a segment which is known to be driving the economy today. Multiplexes also occupy a very large built up area since they are spread across the entire floor and generally have a minimum of 4 screens. Hence, they are the next dominant anchor tenant, occupying 29% of

the total area. Apparel and Accessory stores, while considerably popular as anchor tenants in other cities, only account for 21% of the total built up area in Mumbai. The rest of the anchor tenant area is utilized by Electronic and White Goods and other stores with 6% and 7% of the total built up area respectively.

Figure 19

### Product Category Distribution - Vanilla Tenant

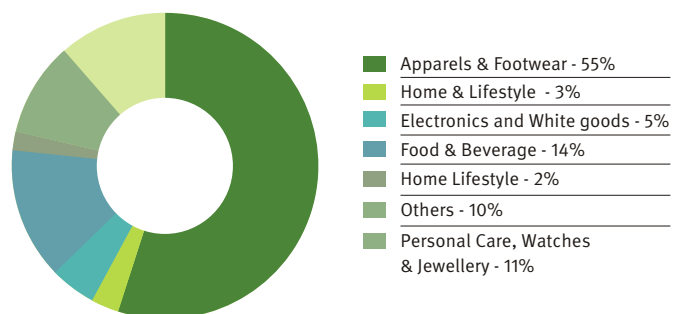


Source: Knight Frank Research

As opposed to the anchor tenants in malls, the Apparel and Footwear category accounts for 50% of the total built up area by vanilla tenants in malls in Mumbai. Having apparel and footwear stores has proven to be extremely popular amongst mall developers, primarily due to their high demand by customers. Since there is no pressing need to have particularly large apparel or footwear stores, they are classified as vanilla tenants and occupy more than 1.5 mn. sq.ft. of mall space. These stores far outnumber any other vanilla tenants, with F&B coming second at only 23% of the total stock. Restaurants and bars have become increasingly popular, especially in malls, since they provide some comfort and relaxation to customers after purchase. Furthermore, malls are being promoted as ideal locations for families to spend their day and hence restaurants provide the ideal scenario for that to happen. This has been noticed by mall managers and hence the number of F&B stores has increased considerably. The rest of the vanilla tenants occupy a minority of the total built up area with major tenants being stores that sell Books, Gifts & Music, Electronics & White Goods, Home & Lifestyle goods and Personal Care, Watches & Jewellery.

Figure 20

### Product Category Distribution- Highstreet



Source: Knight Frank Research



# Q1 2010 INDIA ORGANISED RETAIL MARKET

## Diagnosis & Outlook

### Highstreet

Along with analyzing the tenant profiling amongst anchor and vanilla tenants in malls, the study also looked at the profiling in 3 important highstreets in the city - Colaba Causeway, Linking Road in Bandra and Breach Candy/Kemp's Corner. The major retailers present and their product categories were analyzed.

Similar to the case regarding vanilla tenants in malls, the highstreets are dominated by Apparels and Accessories with those stores occupying 55% of the total number of stores in the highstreets. Retailers assign great importance to apparel, footwear and other related accessories and this explains their domination of the 3 major highstreets. Again, similar to vanilla tenants, the F&B category accounts for the second most number of stores with over 55 stores, approximately 14% of the total number of stores. The explanation for this is similar to the one presented for malls, with retailers looking for some form of relaxation at the end of their shopping hence restaurants and coffee are prevalent. Personal Care, Watches and Jewellery account for 11% of the total stores while only 2% of the total number of stores are used for Home & Lifestyle. It can be safely assumed that the retail sector thrives on apparel and accessories along with food and beverage stores and hence these categories are dominant amongst vanilla tenants in malls as well as in highstreets.

## 6. Mall: Operational Profile

The table shows the Rent as a Percentage of Revenue in different zones in Mumbai and is nothing but the rent per sq.ft. divided by the revenue per sq.ft., expressed as a percentage. The vanilla tenants in the Central Suburbs and Western Suburbs pay as much as 14% of their revenue on rent, showing that these zones are the highest amongst the vanilla tenants. In the Island City the vanilla tenants pay only 11% of their revenue on rent, making this zone the lowest amongst the vanilla tenants. While looking at anchor tenants, it is clear that the Island City and Central Suburbs' anchor tenants have the least rent to revenue ratio with only 8%. The Western Suburbs' anchor tenants have the highest rent to revenue ratio at 10%.

Table 12

#### Rent as a percentage of Revenue

Micro-market	Rent as a percentage of Revenue	
	Vanilla (%)	Anchor (%)
Island City	11	8
Western Suburbs	14	10
Central Suburbs	14	8
Navi Mumbai	13	9

Source: Knight Frank Research

Table 13

#### CAM Charges (on Saleable Area)

Micro-market	CAM charges (Rs/sq.ft. per month)	
	Vanilla	Anchor
Island City	15	11
Western Suburbs	14	14
Central Suburbs	19	9
Navi Mumbai	19	12

Source: Knight Frank Research

The Common Area Maintenance (CAM) charges are more or less standard across the different zones, with most tenants paying on an average between Rs. 10-19/sq.ft. per month. The only slight outliers are the Central Suburbs where anchor tenants pay only Rs. 9/sq.ft per month.

Table 14

#### Average Trading Density in Malls (On Saleable Area)

Micro-market	Average Trading Density (Rs/sq.ft. per month)	
	Vanilla	Anchor
Island City	785	653
Western Suburbs	756	662
Central Suburbs	885	583
Navi Mumbai	797	503

Source: Knight Frank Research

The Average Trading Density (ATD) is an extremely important measurement of how successful a retailer is. It is a direct indicator of how much revenue the retailer generates. In fact, ATD is simply the revenue generated per square foot of the store; hence a higher ATD means the revenue generated is higher, while a lower ATD conveys the opposite. For vanilla tenants, the ATD ranges from Rs. 756-885/sq.ft. per month with the Western Suburbs and Navi Mumbai being on the opposite ends of the spectrum respectively. For anchor tenants, the ATD ranges from Rs. 503-662/sq.ft. per month. Ironically, this time it is Navi Mumbai with the lowest ATD and the Western Suburbs with the largest.

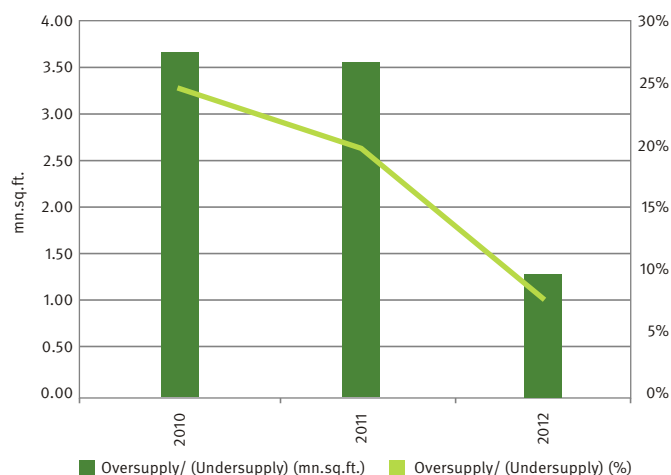
## 7. Outlook

The city of Mumbai is set to witness a huge supply influx of around 11 mn.sq.ft. during 2010-2012. However, this supply is not evenly distributed with the Central Suburbs accounting for as much as 62% of this upcoming supply. The total organised retail market in the Central Suburbs is not fully developed as the penetration of organised retail in the residential catchment areas is relatively less. As a result, we are likely to see a large amount of oversupply in this zone, unless the residential area can be developed at a faster pace, such that it keeps up with the large scale supply entering the zone.



Figure 21

### Mumbai: Retail Real Estate Scenario



Source: Knight Frank Research

Conversely, the Island City zone contributes towards only 6% of the upcoming supply, with roughly 600,000 sq.ft. of retail space coming into this zone. As opposed to the Central Suburbs, the Island City has a highly developed residential catchment area and hence the total organised retail market size is relatively high. Since this zone is expected to have a low supply of organised retail space during 2010-2012, an undersupply situation would prevail in near future.

The Western Suburbs region is likely to see a lot of residential growth followed by organised retail activities. The stretch of this region is now expanding beyond north of Borivali till Mira Road and Bhayander. The challenge would be to keep a balance between the growth of organised consumer market and upcoming space supply of organised retail.

In order to understand whether the city of Mumbai has and will have an oversupply or undersupply of retail space, Knight Frank Research built a Retail Demand Supply Forecast Model. Through this model we estimated the organised Retail Market (ORM) for the next three years (2010-2012) based on the 2009 figures. We similarly calculated the Real Estate Retail Potential (RERP) and then concluded whether there was an oversupply or undersupply based on these calculations.

Through our model, we forecasted the ORM to grow from Rs. 74 billion in 2009 to Rs. 203 billion in 2012. During the same period the RERP would increase from Rs. 79 billion to Rs. 216 billion. The increase in RERP is primarily due to a huge supply influx of approximately 11 mn.sq.ft. that the city would witness between 2010 and 2012. In 2010, we forecast the oversupply to be 3.66 mn.sq.ft. which is 22% of the cumulative retail stock. The 6 mn.sq.ft. estimated supply in 2010 accounts for the RERP growing much faster than the ORM, leading to high oversupply. However, in 2012 we estimated there to be an oversupply of 1.31 mn.sq.ft., which is 6% of the total retail stock; this

IN 2012 WE ESTIMATED THERE TO BE AN OVERSUPPLY OF 1.31 MN.SQ.FT., WHICH IS 6% OF THE TOTAL RETAIL STOCK; THIS CAN BE CONSIDERED MEDIUM OVERSUPPLY

can be considered medium oversupply. This is because the RERP is not that much larger than the ORM, mainly due to only 1.7 mn.sq.ft. of upcoming supply during this year. Hence, it is clear that the oversupply is reducing from 2010 to 2012 as the amount of supply entering the market also reduces from 2010 to 2012. At the back of this falling oversupply, the organised retail space rentals are expected to stabilize



# Q1 2010 INDIA ORGANISED RETAIL MARKET

Diagnosis & Outlook

## PUNE

### 1. Market Review

In recent times, Pune has become one of the fore-runners in the development of organised retail in Tier II cities. Young professionals, migrant white-collar workers with high disposable incomes, improved living standards and cosmopolitan lifestyles, amongst other factors, have driven this growth of Pune's retail market. Emergence of information technology sector has largely been responsible for an increase in demand of residences which in turn led to a demand for quality retail space in Pune. Established retail brands in apparel, electronic goods, FMCG, furniture etc. have already made a foray into this market in the last few years.

Due to the recent economic slowdown, the retail market in Pune, which had been on an upswing for the past few years, has been adversely affected. Although retail rentals witnessed a slight increase since the last quarter of 2009, the entry of new brands and the infusion of new retail space in the city have come under speculation. A number of retail projects by prominent developers were proposed in different areas of the city in 2008-09, many of which have been now either put on hold or taken off the market.

Over the past few years, Pune witnessed the onset of several new format retailing. However, these formats have met with varying degrees of success. While Ishanya, the only specialty mall in the city, despite aggressive marketing and large scale events being organised on its premises, has witnessed gradual space absorption since it got operational in 2007, the 'all luxury brand' project Jewel Square launched in 2009 has seen success with 100% absorption. This premium retail format, being located in the upmarket location of Koregaon Park, has been effectively able to cater to its target clientele. Consequently, its success attracted a number of premium brands which were previously located elsewhere, to move in to the mall. On a significant note, unlike other malls, the footfall and conversion rate is higher on weekdays.

Another retail trend observed in the city includes organisation of various events in prominent malls in an attempt to increase footfalls and revive conversion rates. Food kiosks, food courts and gaming zones have been incorporated in new developments in order to attract more people to the mall.

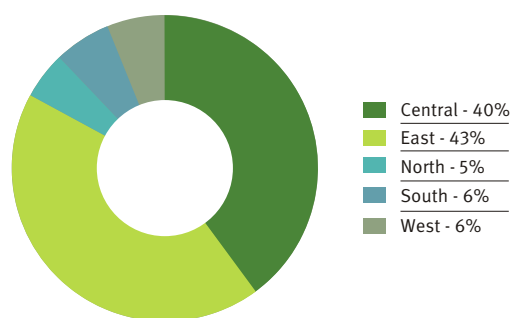
As compared to other cities, retail projects in Pune comprise smaller area formats and few operational malls have format sizes ranging between 0.1 mn. sq.ft to 0.6 mn. sq.ft. Mostly larger malls in the upcoming supply are part of big township projects like Amanora and Blueridge (approx. 1 mn. sq.ft.), while a few others like the Inorbit mall (0.5 mn. sq.ft.), G Corp (0.32 mn. sq.ft.) at Nagar Road, Elpro (0.7 mn. sq.ft.) at Pimpri are also underway.

### 2. Operational Mall Analysis

At present, the total retail stock in the city, in terms of operational malls amounts to approximately 2.77 mn.sq.ft. In terms of existing malls and larger retail formats, the central and eastern locations of the city lead with popular retail projects like SGS Mall (MG Road), Pune Central (Ganeshkhind Road and Bund Garden Road), E Square (Ganeshkhind Road) and Meriplex (Kalyani Nagar). Jewel Square, which houses all premium brands, and specialty mall like Ishanya are also located in east Pune. Amongst the existing malls, only SGS Mall and Jewel Square are operating well and have 100% occupancy. Others like Kakade City Port and Nucleus have very low footfalls and conversion rates and also have higher vacancy rates.

Figure 22

#### Distribution of retail stock

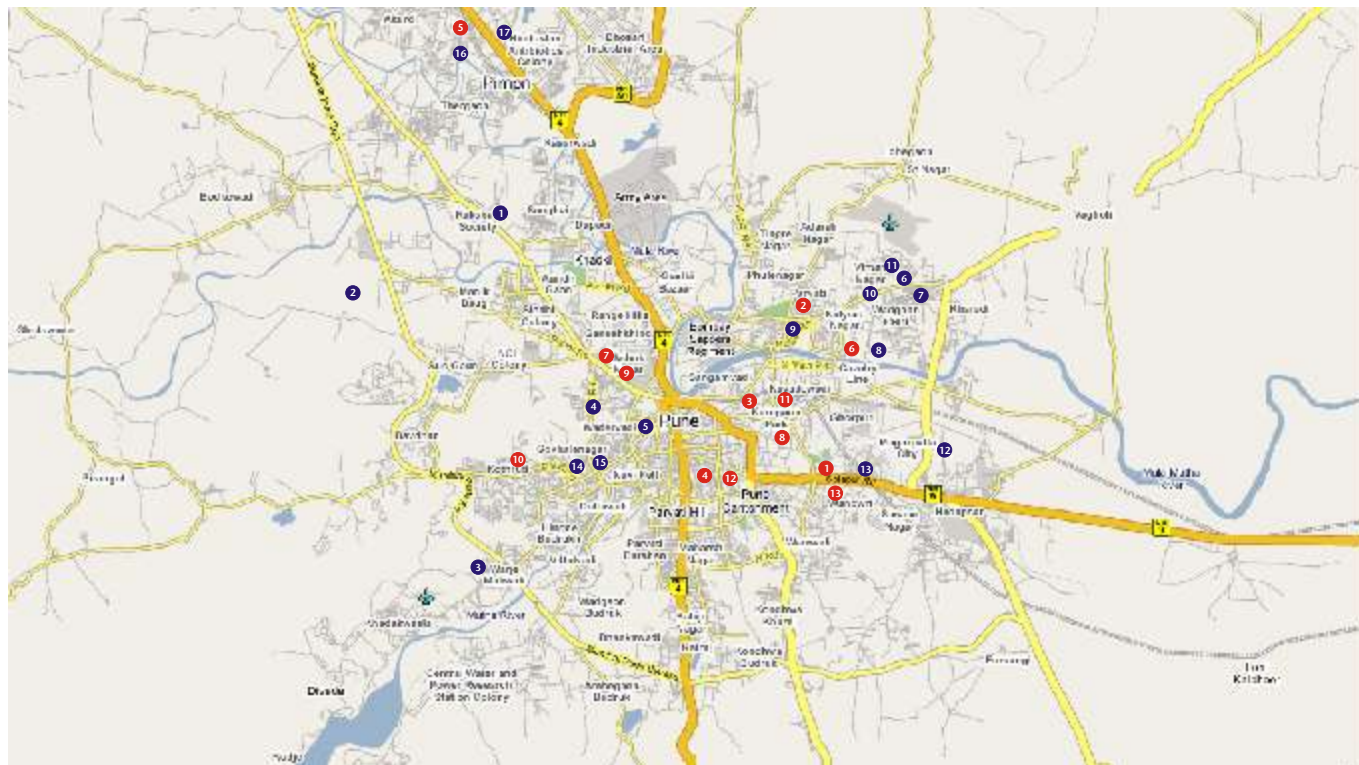


Total Area 2.77 mn.sq.ft.

Source: Knight Frank Research



## Pune



UPCOMING	EXISTING
1. Genesis	1. Krome
2. Blue Ridge	2. Ishanya
3. Megapolis	3. Pune Central
4. ICC	4. Nucleus
5. Mall by Bakre - Cello developers	5. Premier Plaza
6. Market City	6. Mariplex
7. Inorbit Mall	7. Esquare
8. Fun and Fair	8. Connaught Plaza
9. Business Bay	9. Kakade Centre Port
10. G Corp	10. Big Bazaar
11. Giga space	11. Jewel Square
12. Amanora	12. Magnum Mall - SGS
13. Gold	13. Fun n Shop
14. Synergy	
15. Esplande	
16. Elpro	
17. Prinze	

## Central Pune

This zone has a number of prominent retail projects like Pune Central, SGS Mall, Nucleus and E-Square, with Kakade Center Port being the recent addition to the list in 2009. These account for almost 40% (1.1 mn. sq.ft.) of the retail stock in Pune. It should be noted that all the mentioned retail projects have different formats. Nucleus Mall, located at Camp, comprises retail plus office space and has very high vacancy rate as a few brands left its premises in the last two years. Pune Central being an established brand in itself has been witnessing higher footfalls due to the presence of multiple brands in most product categories. E-Square is an old and prominent entertainment destination in the city with multiplex and fine dining as major

Table 15

### Zonal Classification

Zone	Locations
Central Pune	Deccan, FC Road, JM Road, Senapati Bapat Road
North Pune	Pimple Saudagar, Wakad
South Pune	Karve Nagar, Kothrud, Erandwane
East Pune	Kalyani Nagar, Hadapsar, Airport Road, Viman Nagar, Nagar Road, Koregaon Park
West Pune	Aundh, Baner, Hinjewadi

Source: Knight Frank Research

components along with a food court and smaller retail stores. The newly open Kakade Center Port also has high vacancy rate, which maybe primarily attributed towards immediate competition from E-Square and Pune Central. Besides, it also quotes higher rentals in order to house only high end brands.

The malls in the central zone of the city have an average vacancy rate of 37% which may appear immense in the presence of well performing retail formats like Pune Central and SGS Mall. This significant vacancy rate may be owing to some under-performing retail projects like Nucleus and Kakade Center Port, which are instrumental in pulling down the average occupancy level in the region. These projects are also facing tough competition from popular shopping and entertainment destinations in the vicinity.

# Q1 2010 INDIA ORGANISED RETAIL MARKET

Diagnosis & Outlook

THE TOTAL RETAIL STOCK IN PUNE, IN TERMS OF OPERATIONAL MALLS, AMOUNTS TO APPROXIMATELY 2.77 MN.SQ.FT. THE RETAIL DEVELOPMENT IN THE EAST ZONE CONTRIBUTES TOWARDS 43% OF IT.

Notably, Nucleus saw an immediate rise in vacancy rate in the last one year with the opening of Jewel Square in Koregaon Park which has pulled premium brands.

## East Pune

The eastern zone of the city encompasses locations like Koregaon Park, Kalyani Nagar, Viman Nagar, Nagar Road and Hadapsar with upper middle class population forming an ideal micro-market for organised retail. Most of the existing retail formats in this region, like specialty mall (Ishanya), mall with only luxury brands (Jewel Square) and retail space clubbed with entertainment format (Mariplex and Fun n Shop) are located in this zone, thus forming highest share of retail stock in the city. The retail development in this zone contributes towards 43% (1.2 mn. sq.ft.) of the total retail stock in the city.

Most of the locations in this zone are witnessing fast paced growth in organised retail in terms of highstreet and mall developments. Koregaon Park and Kalyani Nagar are premium locations with the presence of both malls and highstreet retail space whereas NIBM Road, Wanowrie, Solapur Road, Kondhwa, Airport Road and Kharadi Road are dotted with many convenient shopping formats besides malls.

The average vacancy rate in existing malls is around 15% with Jewel Square having the highest occupancy. None of the existing malls are facing adverse situation in terms of vacancy rate or footfalls due to favourable demographics of the zone. The existing projects are doing well because each is a different format and serves a specific clientele and micro-market. This even spread-out of retail space in the region and well-thought formats have led all projects to withstand the recession.

## West Pune

The organised retail in western locations of the city like Aundh, Baner and Bavdhan mostly consist of shopping complexes or commercial complexes, Westend in Aundh being the only large format retail development. Aundh in recent times has evolved as a key highstreet in the western zone with a number of prominent brands present in the area. This zone contributes 6% (0.17 mn. sq.ft.) to the retail stock in the city and has a low vacancy level of 4%.

## North Pune

Northern zone of Pune comprises Pimpri Chinchwad Municipal Corporation (PCMC) and the newly developed residential pockets towards north western areas such as Pimple Saudagar, Rahatni and Pimple Nilakh. Traditionally this zone is dominated by various industries located at the MIDC promoted industrial parks at Bhosari and along the old Mumbai Pune highway (NH-4). Of late, with the presence of Rajiv Gandhi Infotech Park at Hinjewadi and the IT Park at Talawde, there has been a shift in consumer profile leading to increased demand for organised retail space in the region.

Pimpri and Chinchwad form the prominent retail stretches in the north zone, accounting for 5% (0.14 mn sq.ft.) of the total retail stock. Primarily known for its industrial base, this region has a number of residential pockets as well, which serve as catchment base for retail developments in the area. At present, there is a vacancy of about 22% in the retail projects operational in the northern zone.

Table 16

### Mall Vacancy

Micro-market	Mall Vacancy
Central Pune	37%
North Pune	22%
South Pune	5%
East Pune	15%
West Pune	4%

Source: Knight Frank Research

## South Pune

Kothrud, Karve Nagar, Erandwane, Warje and Satara Road are the prominent retail belts in this zone with very few large format retail projects like Big Bazaar (Kothrud), KK Bazaar (Satara Road) and Kakade Plaza (Karve Road). This part of the city is primarily a residential pocket and its need for organised retail is largely catered to by the highstreets in central zone like Senapati Bapat Road, JM Road and FC Road.

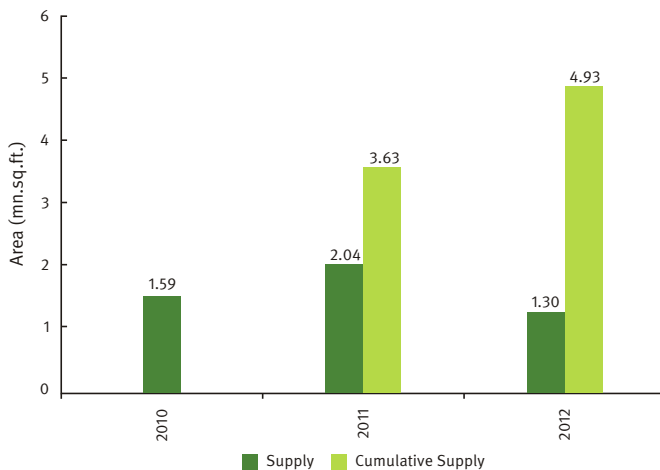
South Pune accounts for around 6% of the total retail stock, to the tune of around 0.17 mn.sq.ft, and has a vacancy rate of 5%.



### 3. Upcoming Supply Analysis

Figure 23

#### Year-wise distribution of supply

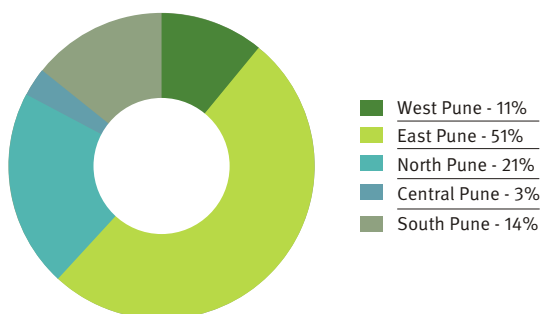


Source: Knight Frank Research

The estimated upcoming retail supply in the city till the year 2012 is around 4.9 mn. sq.ft. Majority of the upcoming supply is in the north eastern and eastern parts of Pune, mainly along Nagar Road and Hadapsar. This zone consists primarily of upper middle class population and provides an ideal catchment. Besides favourable demography for retail development, proximity to IT hubs, railway station and airport also make these locations suitable for large format retail projects. Major retail projects in the east zone are Inorbit Mall (0.53 mn sq.ft.) by K Raheja Corp at Nagar Road, Fun n Fair (0.6 mn.sq.ft.) by Kumar Builders at Kalyani Nagar, Amanora (0.7 mn. sq.ft.) at Hadapsar by Future Group and Pacific Mall (0.5 mn. sq.ft.) at Koregaon Park by Kumar Properties. With such large format retail projects and malls in the pipeline, east zone shall contribute towards 51% of the upcoming retail supply by the end of 2012.

Figure 24

#### Distribution of upcoming supply (2010-12)



Total Area: 4.9 mn.sq.ft

Source: Knight Frank Research

On the other hand, the central zone shall account for a miniscule 3% of the total upcoming supply in the city. Some of the prominent upcoming projects in central zone include the Matrix (0.03 mn.sq.ft.) at Wakdevadi by Vascon Developers and R Mall by Darode Jog at Deccan (0.1 mn sq.ft.).

**THE ESTIMATED  
UPCOMING RETAIL SUPPLY  
IN PUNE TILL THE YEAR  
2012 IS 4.9 MN. SQ.FT. THE  
MAJORITY OF THIS IS IN  
THE NORTH EASTERN  
AND EASTERN PARTS OF  
THE CITY, MAINLY ALONG  
NAGAR ROAD AND  
HADAPSAR**

The southern part of the city shall contribute around 14% to the total upcoming retail space by end-2012. Major projects in the south zone are Down Town by Suma Shilp (0.2 mn sq.ft.) at Erandwane and Esplanade (0.2 mn. sq.ft.) at Karve Nagar by Soul Space. Most of the projects which were announced in 2007-08 are yet to be operational. Malls like Inorbit, R Mall, Down Town and Esplanade are some prominent projects which got delayed due to the economic slowdown. Also, two of the main malls in south zone, 44 Sinew Hills (0.75 mn. sq.ft.) by Kumar Builders and Kakade City Mall (0.5 mn. sq.ft.) by Kakade Group, both located at Karve Nagar, have been ruled out. Out of the total proposed retail space in 2008-09, 1.25 mn. sq.ft. has been called off and only 1.5 mn. sq.ft. became operational. Of late, there have been no new announcements regarding retail ventures as majority of the planned and estimated retail supply of 2008 is yet to be completed.

### 4. Rental Profile

In Pune, the traditional retail markets in the old city and highstreets were not affected by the slowdown as much as the malls. In terms of mall rentals in the existing supply, no floor wise variation was observed in rentals of vanilla stores. This is because most of the retail space is configured within a range of G+1 to G+2 levels (Ishanya mall being an exception with G+5 structure configuration as it houses home & lifestyle items).

# Q1 2010 INDIA ORGANISED RETAIL MARKET

## Diagnosis & Outlook

Also, the operational malls are fastidious about brands they include, thus encashing the demand for a particular brand irrespective of its floor wise allocation in the mall. One such format is Jewel Square which houses all luxury/premium brands and has store sizes ranging from 1,000-5,000 sq.ft. with 'perceived' anchor brands having no more than the advantage of display along the main facade.

Table 17  
Rentals In Operational Malls

Micro-market	Mall Rentals (Rs./sq.ft. per month)	
	Average Anchor	Average Vanilla
Central Pune	95	132
North Pune	75	90
South Pune	55	85
East Pune	75	110
West Pune	70	110

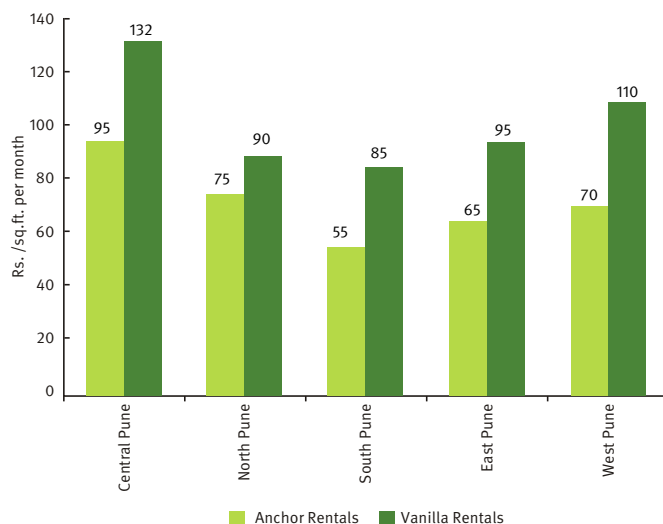
Source: Knight Frank Research

## Mall

In terms of rental profile of anchor and vanilla tenants in the operational malls, the range for anchor tenants in central zone varies from Rs. 70-115/sq.ft. per month. These relatively higher anchor rentals maybe attributed to the dearth of adequate mall space in the region. These malls cater to the demand emanating from catchments in the west and south zone of the city as well. The range for vanilla tenants in the central zone varies from Rs. 100-160/sq.ft. per month. The only other zone with most operational malls is east zone, where the rentals for anchor tenants range between Rs. 60-85/sq.ft. per month and those for vanilla stores are in the range of Rs. 90-130/sq.ft. per month depending on the location. Prominent stretches like Kalyani Nagar, Nagar Road and Airport Road are the locations commanding higher rentals.

Figure 25

### Average Mall Rentals



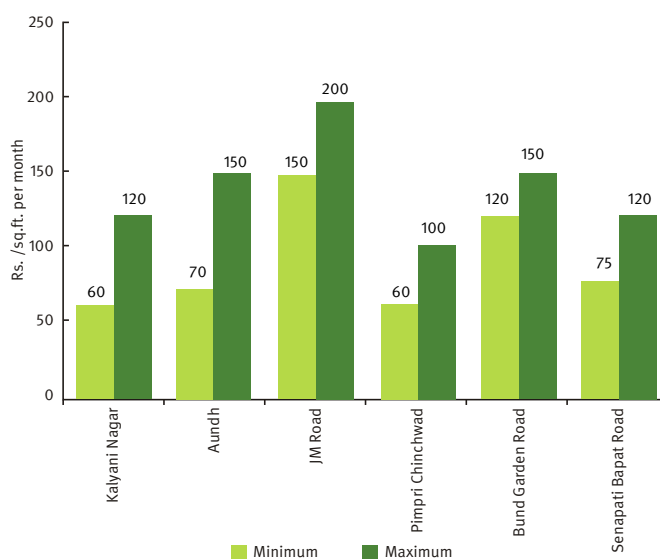
Source: Knight Frank Research

## Highstreet

The major highstreets of the city are located in the central zone, namely FC Road, JM Road, Camp and Bund Garden Road which command rentals in the range of Rs.75-200/sq.ft. per month. In areas like Kalyani Nagar, Nagar Road and Airport Road the rentals range between Rs.50-120/sq.ft./month.

Figure 26

### Highstreet Rentals



Source: Knight Frank Research

During the recession when majority of the retail projects in the city were not generating much business, a revenue sharing model had come into the picture in many malls. However, of late the trend has seemingly declined with rentals stabilizing and the gradual revival of business. Fixed rentals to mall developers are again becoming the norm for most tenants.

## 5. Product Category Distribution

During the course of the study, a number of facts came to light regarding the tenants' profiles in a mall as well as in a highstreet. The findings have been listed in the following sections:

### Mall

The study on malls' tenant profiling reveals that the anchor tenants taking up most space in malls belong to brands selling apparels and accessories. Around 38% of the space in the city's malls is taken up by the 'Apparel and Accessories' category. The categories occupying the most space in malls are the hypermarkets and the multiplexes. Given the fact that they require larger spaces, these categories account for almost 26% each of the total retail stock.



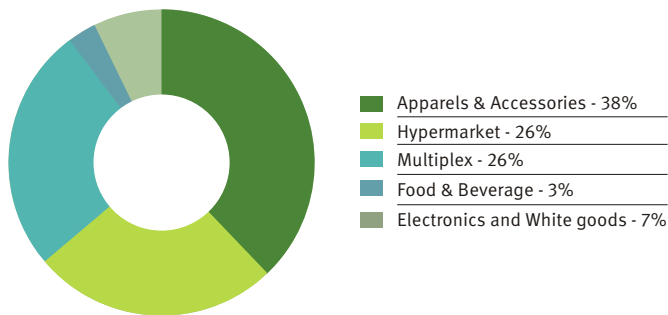


The remaining anchor tenant area is accounted for by F&B, Electronics & White goods and other stores, to the tune of 3% and 7% respectively.

A similar analysis was conducted on the vanilla tenants' profiles as well.

Figure 27

#### Product Category Distribution - Anchor Tenant

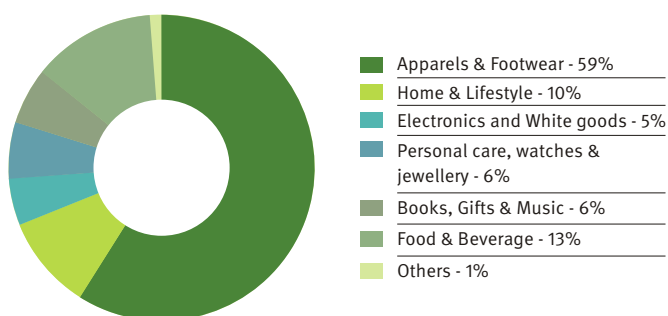


Source: Knight Frank Research

It was observed that, similar to anchor tenants, the largest quantum of mall space occupied by vanilla tenants belonged to stores selling Apparel and Footwear. They accounted for about 59% of the total vanilla tenant occupied area in the existing malls. This category is followed by the F&B outlets, which, of late has become an integral part of a mall development due to their ability to pull crowds. It has been observed that other than the apparel and footwear category, most other vanilla brands have marginal presence in malls. Around 10% of the retail space is accounted for by stores belonging to the Home & Lifestyle category, while other categories like Electronics & White goods, Books, Gifts & Music and Personal care contribute 5%, 6% and 6% respectively.

Figure 28

#### Product Category Distribution - Vanilla Tenant



Source: Knight Frank Research

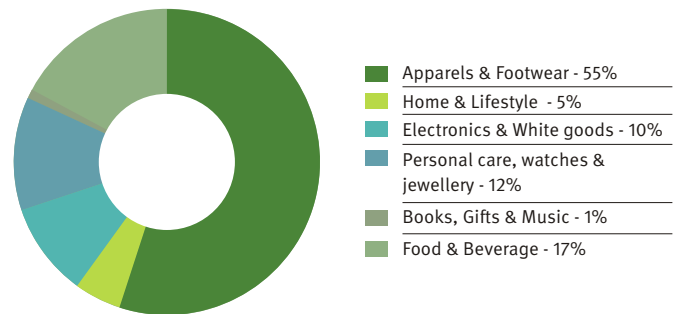
### Highstreet

Two key highstreets of Pune, viz. MG Road and JM Road, located in the central part of the city, were selected for study to determine the number of brands falling under various product categories. Some of the prominent stores in MG Road include Nike, Reebok, Samsonite and

Van Heusan; while brands like UCB, World of Titan, Woodlands and Wrangler have their stores on JM Road. As with the malls, here also the 'Apparel and Footwear' category has the highest number of stores, which is close to 55% of the existing stock in these two highstreets. It is followed by F&B outlets with 17% of the stores, and Personal care, Watches and Jewellery with 11% of the total stock. Electronics & White goods, Home & Lifestyle, Books, Gifts & Music constitute the rest with 10%, 5% and 1% in these highstreets.

Figure 29

#### Product Category Distribution- Highstreet



Source: Knight Frank Research

## 6. Mall: Operational Profile

The study has tried to cover the various costs involved from the perspective of a retailer as well as the Average Trading Density and present the findings in following sections:

Table 18

#### Rent as a percentage of Revenue

Micro-market	Rent as a percentage of Revenue	
	Vanilla (%)	Anchor (%)
Central Pune	14	7
East Pune	15	8
South and South West Pune	15	10
West Pune	8	5
North Pune	10	8

Source: Knight Frank Research

While rent acts as revenue for the mall developer, the same becomes a cost for the retailer leasing the mall space. As is evident in the Table 18 showing the rent to revenue percentage, vanilla tenants in a mall have average rental values ranging between 8-15% of the total revenue generated. On the other hand, anchor tenants, who enjoy the benefit of occupying larger spaces at lower rentals as compared to vanilla tenants, have a rent to revenue ratio in the range of 5-10%.

Apart from the rent which is paid monthly by them, retailers are also liable to pay Common Area Maintenance (CAM) charges on a monthly basis for the common area used by all tenants (such as the lobby, elevators, restrooms or parking lots).

# Q1 2010 INDIA ORGANISED RETAIL MARKET

## Diagnosis & Outlook

Table 19

### CAM Charges (on Saleable Area)

Micro-market	CAM charges (Rs/sq.ft. per month)	
	Vanilla	Anchor
Central Pune	15	12
East Pune	12	10
South and South West Pune	10	8
West Pune	12	10
North Pune	8	8

Source: Knight Frank Research

The CAM charges for vanilla tenants work out to Rs. 8-15/sq.ft. per month across various micro-markets, while they are in a range of around Rs.8-12/sq.ft. per month for anchor tenants. The least CAM charges are witnessed in North Pune micro-markets whereas the highest are recorded in Central Pune.

Table 20

### Average Trading Density in Malls (On Saleable Area)

Micro-market	Average Trading Density (Rs/sq.ft. per month)	
	Vanilla	Anchor
Central Pune	750	660
East Pune	690	660
South and South West Pune	600	510
West Pune	630	540
North Pune	450	360

Source: Knight Frank Research

The most important aspect of retailers is the average trading density that determines the revenue generated by retail outlets in various malls. It is observed that vanilla tenants in Central Pune malls have the highest average trading density of Rs.750/sq.ft. per month, whereas the lowest is recorded in the North Pune malls at Rs.450/sq.ft. per month. The anchor tenants in the central and eastern markets have recorded the highest Average Trading Density of Rs.660/sq.ft. per month and the lowest was recorded in the North Pune malls at Rs.360/sq.ft. per month.

## 7. Outlook

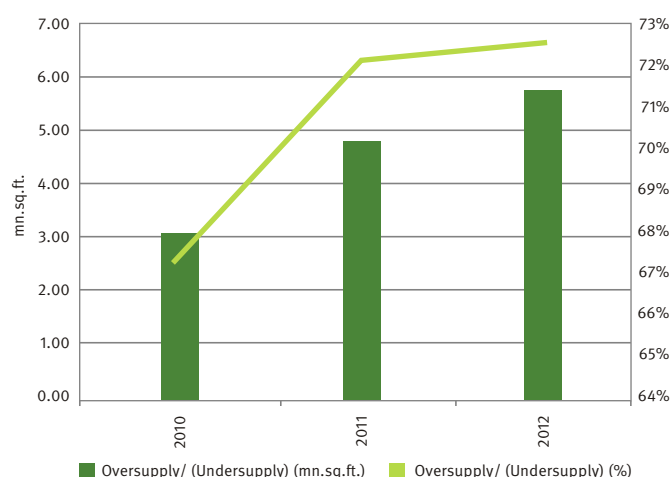
Retailing in Pune has shifted focus from small retail stores to large format malls which club together retail space, multiplexes and food courts. In the present scenario, retailing has increasingly spread towards the outskirts of Pune as the city centre is congested with very few land parcels available for large format organised retailing. Organised retailing is picking up in the western region of the city due to large-scale IT/ITES developments at Hinjewadi while locations in the North-Eastern Zone like Kalyani Nagar, Hadapsar, Viman Nagar, Nagar Road and Airport Road have also contributed in adding demand for retail.

Recession concerns had led to softening of rentals over the previous year and most regions witnessed correction of around 15% in retail rentals. However, revival of the economy has infused confidence in the market and the rentals at present are stable. In the forthcoming months, the city is expected to witness a gradual incline in rental values, primarily in the central and eastern markets. Currently an oversupply situation is envisaged where the cumulative demand for organised retail space is less than cumulative supply of retail space in Pune. Over the next few years, plans for construction of organised retail space will be delayed due to high vacancies in already constructed projects. High vacancies have led to the postponement of a number of retail developments which were planned to be operational by 2009-2010. These projects are now scheduled to be operational by 2012-2013. While most retail developments are seen in eastern regions of the city, developments are expected to pick up in western regions over the coming years.

In order to calculate whether there was an oversupply or undersupply of retail space in Pune, Knight Frank Research built a Retail Demand Supply Forecast Model. Through this model, we estimated that the Total organised Retail Market would grow from Rs. 9 billion in 2009 to Rs. 20 billion in 2012. During the same period, the Real Estate Retail Potential would increase from Rs. 26 billion to Rs. 86 billion. We estimate the Retail Potential to increase by this much since we believe that there will be a supply infusion of approximately 4.92 mn.sq.ft. in Pune, which would cause the Retail Potential to be boosted by such a big factor. Based on these calculations, Pune will witness an oversupply during all 3 years, growing from 3.10 mn.sq.ft. in 2010 to 5.78 mn.sq.ft. in 2012; this accounts to very high oversupply (greater than 50% for each of the years).

Figure 30

### Pune: Retail Real Estate Scenario



Source: Knight Frank Research





# BENGALURU

## 1. Market Review

Retail in Bengaluru has witnessed a lull in activity over the past year and a half primarily due to the after-effects of the economic downturn. The market dynamics have changed and therefore, contrary to the period prior to the slump, developers are lending an ear to the retailers.

Over the past year there has been a steady increase in the entry of foreign brands into the city, most of which has been either in the apparel category like Daniel Hector or Food & Beverage category like Taco Bell and Chilies. Bengaluru's retail market in terms of its consumer profile and vibrancy reflects the cosmopolitan nature of the city. The mix of contemporary brands and the upwardly mobile young shoppers is an example of the coming of age of Indian consumers. Although mall developments in the city started later when compared to Mumbai and Delhi, the pace of growth registered in terms of supply during the last few years is quite aggressive. As of now, there are an estimated 16 operational shopping malls in Bengaluru, which are expected to exceed the figure of 30 by 2012.

The first high end luxury mall of Bengaluru, The Collection at UB City, became fully operational last year. Amongst highstreets in the city, Brigade Road, MG Road, Commercial Street, Vittal Mallya Road and Indira Nagar are the most established ones. Over the last 2-3 years, highstreets in the city have ramped up their retail offerings, both in terms of density and the variety, by enhancing their mix of both national and international brands.

Although there was a lot of interest in mixed-use formats earlier during the year, the response remains muted till date. This is because most office spaces prefer setting up operations in the periphery where rentals are low as compared to retail which requires to be set up in prominent locations within the micro-market. The interest from the hospitality sector for operating in mixed use formats in the city has waned as existing hotel and service apartment brands at mixed use developments are yet to pick up. A lot of the proposed retail supply has been stalled because of last year's meltdown. The commencement of development activity in these proposed malls would hinge a lot on the real-estate markets picking up and the timely completion of infrastructure projects in the city.

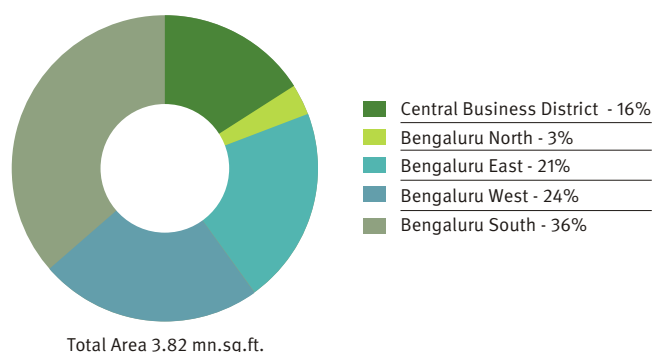
## 2. Operational Mall Analysis

During the past two years there has been a limited increase in organised retail stock due to unfavorable market conditions. Most retail projects which were slated for operation this year are still in their planning stage. Forum Mall in Koramangala and Garuda Mall on Magrath Road continue to be the most successful malls in the city.

Most of the existing malls are concentrated towards southern locations in the city because of the presence of a strong residential catchment. The past year saw the entry of one mall in the city, namely the Arch Mall. Among other organised stores, Bengaluru Central, developed by the Mantri Group, had begun operating in J. P Nagar last year. So far this year has seen the launch of Mantri Square at Malleshwaram, the largest mall in the country. For convenient understanding, the city's retail market is divided into five zones namely CBD, North Zone, South Zone, East Zone and West Zone.

Figure 31

### Distribution of retail stock

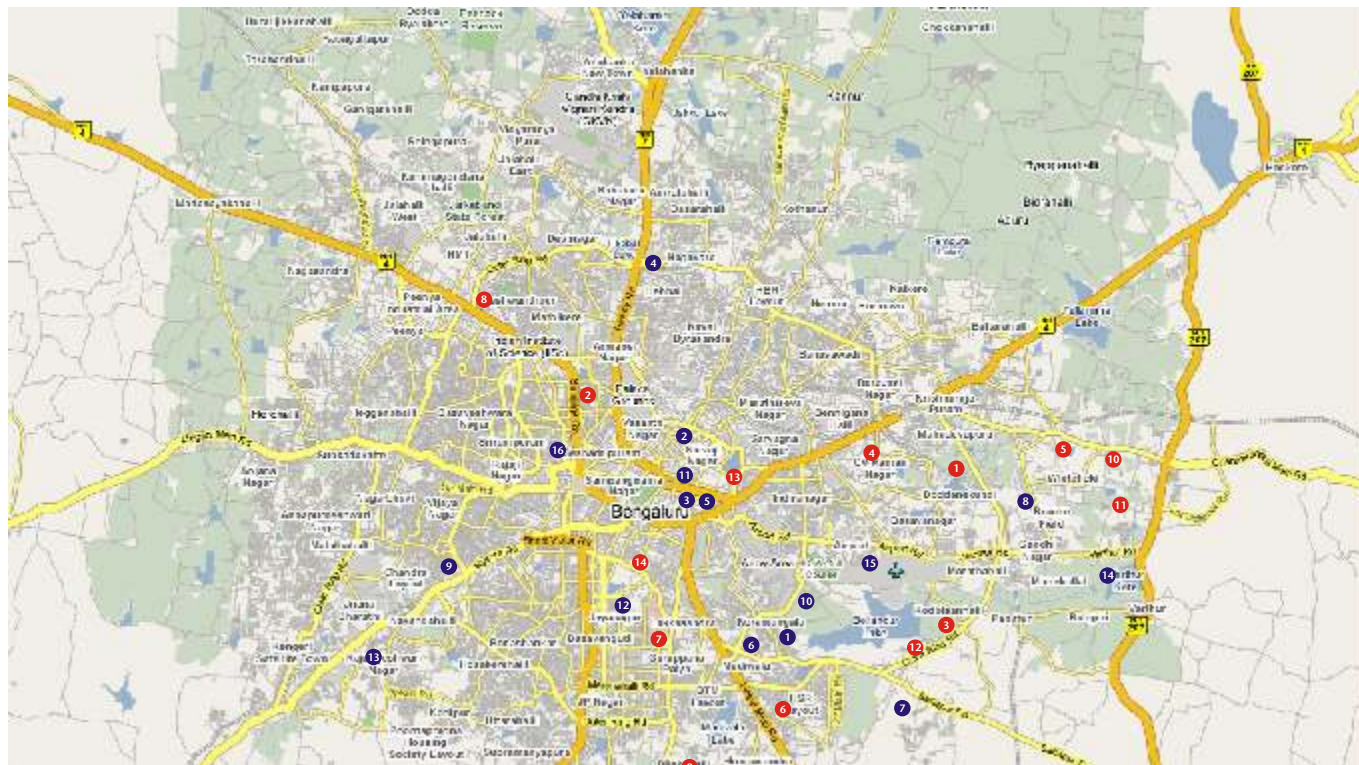


Source: Knight Frank Research

# Q1 2010 INDIA ORGANISED RETAIL MARKET

Diagnosis & Outlook

## Bengaluru



● UPCOMING	● EXISTING
1 Soul Space Arena	1 Forum Mall
2 Orion Mall	2 Sigma Mall
3 Soul Space Spirit	3 Garuda Mall
4 Signature mall	4 Esteem Mall
5 Phoenix Market City	5 Eva Mall
6 Alliance mall	6 Total Mall
7 Innovation Mall	7 Total Mall
8 Karle Mall	8 Vaswani Cosmos
9 Royal Meenkshi Mall	9 Gopalan Legacy Mall
10 ITPL Mall	10 Oasis Mall
11 Inorbit Mall	11 The Collection
12 Maximus Mall	12 Garuda Swagath Mall
13 Central (International brands)	13 Arch Mall
14 Viva City (office+retail)	14 Forum Value Mall
	15 Total Mall
	16 Mantri Square/ Mantri Mcube mall

## CBD

Retail market in Central Bengaluru comprises MG Road, Residency Road, Brigade Road, Palace Cross Road, Magrath Road, Richmond Road, Lavelle Road, Infantry Road, Cunningham Road, Ulsoor and Brunton Road.

This zone has a retail stock of 0.61 mn.sq.ft. Currently prominent malls in this zone include Garuda Mall at Magrath Road with a super built up area of 0.25 mn.sq.ft, Sigma Mall at Cunningham Road with a super built up area of 0.12 mn.sq.ft., Eva Mall at Brigade Road with a super built up area of 0.9 mn.sq.ft. and The Collection Mall at Vittal Mallya Road

Table 21

### Zonal Classification

Zone	Locations
Central Business District (CBD)	MG Road, Brigade Road, Magrath Road, Infantry Road, Cunningham Road, Ulsoor
North Zone	Hebbal, Bellary Road
South Zone	Koramangala, Hosur Road, Bannerghatta Road , Outer Ring Road, Jayanagar, JP Nagar
East Zone	Indira Nagar, Old Airport Road, Marthahalli Junction, Old Madras Road, KR Puram, Brookefields, Sarjapur Road and Whitefield
West Zone	Malleswaram, Rajajinagar,

Source: Knight Frank Research

with a super built up area 0.15 mn.sq.ft. Amongst these malls the Collection Mall became operational last year. It is India's first luxury mall which hosts major international and Indian luxury brands such as Louis Vuitton, Gucci, Fendi, Dunhill, Rolex, Omega and Kimaya, across categories such as apparel, jewellery, accessories. It is part of a mixed use development which includes office space and serviced apartments. Most of the brands seen in this mall are unique, with some having stores in the mall as their only outlets in the city.

In the CBD, the micro-markets where retail activity is prominent are MG Road, Brigade Road, Residency Road and Commercial Street.



AT PRESENT, THERE ARE AN ESTIMATED 15 OPERATIONAL SHOPPING MALLS IN BENGALURU, TOTALING UPTO APPROX. 3.81 MN.SQ.FT.

These micro-markets have traditionally been the retail hub here located in the heart of the city. Residents of the city have been shopping in these micro-markets for generations making it a major retail destination in the city. It caters to all types of retail categories like Apparel & Footwear, Jewellery, Consumer Durables and Home Store.

The presence of prominent highstreet markets in the CBD has been a setback for mall space in the zone. Eva Mall which began as a concept mall for women has undergone a complete transition and is functioning as a regular mall. Contrary to the earlier plans, this mall is now open for leasing space to office space occupiers. Others like Sigma Mall are finding it difficult to sustain the competition posed by highstreets and handling low conversions. Last year's meltdown has affected malls in the CBD strongly, such that most retailers are unable to sustain operation under high lease rental values. The rentals in this zone have dropped close to 30-40% over the past year. The vacancy in this zone currently stands at 8%. Barring Garuda Mall and The Collection, other malls are witnessing an exodus of retailers primarily due to design considerations and lack of footfalls.

## North Zone

Retail market in Bengaluru North consists of locations like Sadashivnagar, Jayamahal, RT Nagar, Fraser Town, Hebbal, Bellary Road, Yelahanka, Yeshwantpur, Dasarahalli, Tumkur Road, Jalahalli and Devanahalli.

Currently this zone has only one mall in existence namely the Esteem Mall, which is located on the Bellary Road and has a super built up area of 0.125 mn.sq.ft. As most people who live in this zone prefer travelling to the CBD for shopping The Esteem Mall, inspite of being the only operational mall in the north has witnessed low conversions since its inception,. The mall's design and the lack of a multiplex and a proper food court have affected its margins. There are close to four proposed malls in this zone namely the RMZ Galleria and Kirloskar Mall on Bellary Road, Karle Mall and Phoenix Market City at Yeshwantpur. Once developed these malls, are expected to provide better options to the people residing here.

The prominent micro-markets in the North Zone with respect to retail are Hebbal, RT Nagar, Bellary Road, Yeshwantpur and Yelahanka. This can be attributed mainly to the highstreet markets here. An emerging premium street retail market in the city's northern region is the New BEL Road with brands like Reebok, Indigo Nation, Adidas and Peter England opening their outlets here. The highstreet markets in the north are typically medium to low end and not properly organised.

## South Zone

In Bengaluru South, the retail expanse spreads across Koramangala, Hosur Road, Bannerghatta Road, Outer Ring Road, HSR Layout, Jayanagar, JP Nagar, Banashankari, Kanakapura Road, Mysore Road and neighbouring locations.

With 1.59 mn.sq.ft., the South Zone is the largest contributor to retail stock in the city. Currently, prominent malls here are Forum Mall at Koramangala with a super built up area of 0.35 mn.sq.ft. Oasis Mall at Koramangala with a super built up area of 1 lakh sq.ft., Gopalan Legacy Mall at Mysore Road with a super built up area of 0.28 mn.sq.ft., Garuda Swagath Mall at Jayanagar with a super built up area 0.17 mn.sq.ft. and Arch Mall at Rajarajeshwari Nagar with a super built up area of 0.16 mn.sq.ft. Among other prominent organised space to have come up in this zone is Bengaluru Central at Jayanagar with a super built up area close to 0.15 mn.sq.ft.

The Arch Mall developed by Gopalan Enterprises is a prominent mall operational since last year. The Arch Mall located at Rajarajeshwari Nagar off Mysore Road is expected to cater to the south-western locations in the city which currently has a dearth of organised retail space. Star Bazaar and Big Cinemas are primary anchor tenants in this mall. Most stores in this mall are currently being readied for occupation which will take a couple of months. Big Cinemas with a 3 screen multiplex is primarily contributing to the footfalls here and is proving to be a big crowd puller. The most unique facet of this mall is its facade which resembles a palace.

Koramangala, Bannerghatta Road, Jayanagar, JP Nagar and Mysore Road are micro-markets contributing the most to retail foot-falls in this zone. This is primarily due to the strong residential catchment prevalent here. Koramangala, Jayanagar and JP Nagar house people from the middle to upper middle income category.

Table 22

### Mall Vacancy

Micro-market	Mall Vacancy
CBD	8%
Hebbal	28%
Whitefeild	10%
Koramangala	7%
Mysore Road	10%

Source: Knight Frank Research

# Q1 2010 INDIA ORGANISED RETAIL MARKET

## Diagnosis & Outlook



Forum Value Mall

The spending power in these locations is big and there is a presence of a vibrant shopping culture in these micro-markets. Bannerghatta Road and Mysore Road mostly constitute of large residential catchments of middle income category residents. The mall vacancy in this zone stands at only 7%. This is primarily due to select retailers unable to generate demand for their products post the economic downturn because of their conservative spending pattern witnessed post the economic downturn.

### East Zone

Retail markets in Bengaluru East are located at Indira Nagar, Old Airport Road, Frazer Town, Cooke Town, Lingarajpuram, Marthahalli Junction, HRBR Layout, Banaswadi, Old Madras Road, KR Puram, Brookefields, Hoodi, Sarjapur Road and Whitefield.

East Zone constitutes 0.59 mn.sq.ft. of retail stock. Currently the prominent malls in this zone include Vaswani Cosmos at Whitefield with a super built up area of 0.14 mn.sq.ft. and Forum Value Mall at Whitefield with a super built up area of 0.24 mn.sq.ft. The Forum Value Mall developed by Prestige Constructions was the only mall to have been operational. It is being promoted as a discount mall with most retailers offering year long discounts on their products when compared to their other stores in different locations. Fame Cinemas is the primary anchor tenant in this mall. Although initially the mall was operating at a good profit margin, of late sales have dipped as highstreet markets in neighbouring micro-markets like Marathahalli are offering better discounts. Being the only mall in the Whitefield micro-market having a multiplex and with a large residential catchment to cater to, it is still registering decent footfalls.

The east zone is the fastest developing zone in the city, the growth of residential and commercial establishments has resulted in a retail impetus as well. The dominant micro-markets in the zone include Indira Nagar, Whitefield, Brookfields, Sarjapur Road, Marathahalli ORR. Micro-markets like Indiranagar, Old Airport Road and Marathahalli have residents in a middle high income segment.

It has the presence of a strong highstreet market but a dearth of mall supply. With the residential catchment being strong and spending mentality being high, these micro-markets are where malls are expected to do well. Whitefield, Brookfields and Sarjapur Road represent micro-markets with a good residential catchment, albeit at a large distance from the city. The people residing here have contributed strongly to the foot-falls generated in Cosmos Mall and Forum- Value Mall, as otherwise prospective shoppers would have to travel a long distance to shop. The mall vacancy in the east zone is only 7%.

### West Zone

Malleshwaram, Seshadripuram, Rajajinagar, Vijaynagar and Magadi Road are the prominent retail locations of Bengaluru West. In the Western Zone most micro-markets are primarily highstreet dominated. Currently there is only one operational mall here, namely the Mantri Square at Malleshwaram with a super built up area of 0.9 mn sq.ft.

The Mantri Square which became operational from March 2010 is currently India's largest mall with nearly 10% more gross leasable area than the erstwhile largest operating mall, Ambience in Gurgaon. It hosts 5 retail giants as its anchors, namely, Future Group, Reliance Retail, Tata-Trent, Landmark Gulf Group and Shoppers' Stop. The mall opened with 90% occupancy as revenue sharing deals have attracted tenants. Located at one end of Sampige Road the mall will cater to the residential catchment of Old Bengaluru. The mall focuses on premium brands identifiable with the mainstream population in the city. Some of Bengaluru's big volume retailers like Favourite Shop and Jamal's, also feature as its tenants. Its close proximity to the upcoming metro railway station is expected to contribute to its foot-falls in the next couple of years.

The vacancy rate in this zone is 10% which is completely contributed by Mantri Square as it is the only mall in this zone. The mall has begun operations recently and within a few months this vacancy is expected to come down. Micro-markets like Malleshwaram and Rajajinagar are expected to primarily contribute to the mall foot-falls in spite of residents in these micro-markets being highstreet oriented. It is also expected to garner consumer interest from neighbouring micro-markets, like Vijaynagar, Magadi Road and Seshadaripuram, as well as other zones.

## 3. Upcoming Supply Analysis

Bengaluru is witnessing retail market stabilization after the lows of last year. The organised retail market in the city has become retailer driven with developers unable to dictate terms. Development work has begun in some of the proposed malls which had earlier been stalled owing to bad market conditions.





## BENGALURU IS EXPECTED TO WITNESS THE SUPPLY INFUSION OF APPROX 6.18 MN.SQ.FT. BY 2012, WITH THE EASTERN REGION ACCOUNTING FOR 57% OF THE TOTAL SUPPLY

The increased supply in the office and residential sector has further fuelled market perception of demand for retail space in the city.

The major upcoming malls in the city include Phoenix Market City in Whitefield with a built-up area of over 1.5 mn.sq.ft., ITPL Mall in Whitefield with a built-up area of 0.4 mn.sq.ft. built by Ascendas, Soul Space Arena and Soul Space Spirit developed by Soul Space at Marathalli and Sarjapur Road respectively with a super built up area of 0.3 mn.sq.ft and 0.23 mn.sq.ft. The Royal Meenakshi Mall being developed at Bannerghatta Road is expected to be completed by the end of the year. The Signature Mall, being developed By Gopalan Enterprises at Old Madras Road, and Sigma Grand Mall developed by

Figure 32

### Year-wise distribution of supply



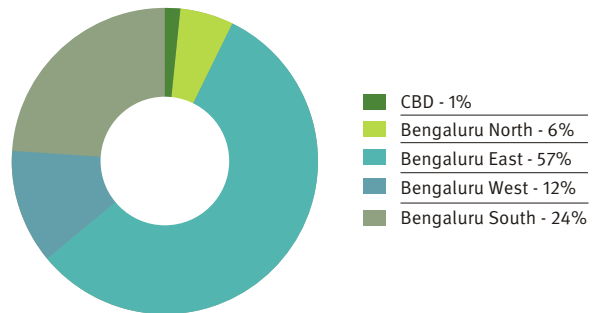
Source: Knight Frank Research

IEDB had been stalled over last year and is expected to pick up development very soon. The basic structure of Signature Mall has been completed and it should be operational by the end of next year.

Majority of the upcoming supply is located in the east zone, with 57% of the total mall space to be operational by 2012 being contributed by

Figure 33

### Distribution of upcoming supply (2010-12)



Total Area: 6.18 mn.sq.ft

Source: Knight Frank Research

this zone. The South Zone with 24% is also a major contributor to upcoming mall supply. The reason for the focus towards the east and south zone is directly related to the residential development in these zones and the demographic profile of the people living in these zones which is primarily of the middle upper middle category. The east zone is the fast developing part of the city due to its relative proximity to prominent commercial markets and development of infrastructure facilities. Over the past 2-3 years, this zone has attracted considerable residential and office space development, as it is fast becoming the preferred destination for residence. With this in mind most developers venturing into retail have looked at the east zone as their preferred location. The south zone on the other hand has always had a large residential catchment which has contributed to mall development. In spite of a majority of the existing malls being located in the south there are still micro-markets which are not serviced by organised mall space. This has prompted retail developers to continue making forays in the south zone. Whitefield and Sarjapur Road and Marathalli in the east zone and Bannerghatta Road in the south zone would be the maximum contributors to the upcoming mall supply by 2012.

Since 2006, there have been a considerable number of upcoming mall projects which have been delayed, stalled and withdrawn primarily owing to the lack of fund raising options after the onset of economic slowdown. During the retail boom in the city which began in 2004, developers announced a considerable number of projects depending on high anticipated demand.

Table 23

### Supply Lag in Bengaluru

Year	Anticipated Supply (mn.sq.ft.)	Actual Supply (mn.sq.ft.)	Supply Withdrawn (mn.sq.ft.)	Supply Stalled/Deferred (mn.sq.ft.)
2006	0.43	0.21	0	0.22
2007	2	1.045	0.15	0.805
2008	3.4	0.51	2.3	0.59
2009	6.3	0.553	1.95	3.797

Source: Knight Frank Research



# Q1 2010 INDIA ORGANISED RETAIL MARKET

## Diagnosis & Outlook

Once the markets crashed there was a simultaneous reduction in demand and funds for development, which led to most of these developers having to delay or stall their projects. From 2006 onwards, over 50% of the anticipated supply, year on year has either been deferred or stalled. Last year there was an anticipated mall supply of 6.3 mn.sq.ft. of which only 0.55 mn.sq.ft. was delivered. 3.79 mn.sq.ft. of the expected retail supply for the year has been deferred with 1.95 mn. sq.ft. of the retail space withdrawn. These figures highlight the impact that the economic downturn has had on the retail market. Currently the markets have started to pick up but it still remains a retailers market and the anticipated mall supply, which includes projects carried forward from previous years, is expected to be delivered on schedule.

## 4. Rental Profile

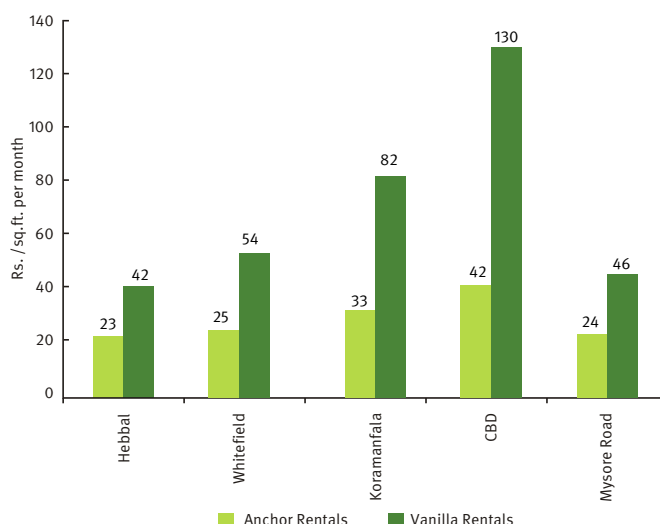
### Mall

Mall rentals in the city primarily depend on the location, builder repute, store size and the floor on which the store is located. It also greatly differs from anchor tenants to vanilla tenants with the variation in most cases being between 30- 50%. Anchor tenants take up a lot of mall space when compared to vanilla tenants and therefore pay a fraction of vanilla rental. The rentals also vary considerably based on the floor where the retailer operates. In the CBD, vanilla rentals on the ground floor are higher by 15-30% when compared to the first floor, and as we go higher they reduce by 15-25%. The vanilla rentals in other micro-markets are higher by 10-20% on the ground floor compared to the first floor and reduce by an average of 8-18% as we go higher. The only exception to this is the Forum Mall at Koramangala in the South Zone, whose floor rental differential mirrors that of the CBD. This is because Forum is the most successful mall in the city and commands a similar price as malls in the CBD. The rental paid by anchor tenants in most parts of the city would vary from Rs. 20-55/sq.ft. per month depending on the location of the mall, the builder repute and brand mix in the mall.

Except Mantri Square in Malleshwaram which is a destination mall, other upcoming malls have transacted at values less than the quoted

Figure 34

### Average Mall Rentals



Source: Knight Frank Research

rentals by 10-30%. For existing malls the rentals vary depending on where the mall is located and the floor of operation. In the CBD the variation of rentals is stark, which differs on an average from Rs. 50 -175/sq.ft. per month for vanilla rentals and effective anchor rentals would vary from Rs. 30-55/sq.ft. per month. The only exception being The Collection Mall in UB City where the rentals vary from Rs. 200-400/sq.ft. per month as it is a destination mall catering to top international brands and is far removed from normal rental pricing dynamics. In Hebbal, vanilla rentals vary from Rs. 30-60/sq.ft. per month and anchor rentals vary from Rs. 20-25/sq.ft. per month For malls in Koramangala the lease rental for vanilla tenants is from Rs. 55-175/sq.ft. per month Whitefield is being developed as a prime retail market due to the presence of a large residential catchment. The vanilla lease rentals in Whitefield vary from Rs. 40-70/sq.ft. per month and the anchor rentals vary from Rs. 22-40/sq.ft. per month.

Food courts are an important component of malls influencing footfall behaviour. The food court rentals vary from Rs. 40-60/sq.ft. per month across malls in Bangalore,. The rentals primarily depend on the floor the food court is located at and the total area occupied by it.

Table 24  
Rentals In Operational Malls

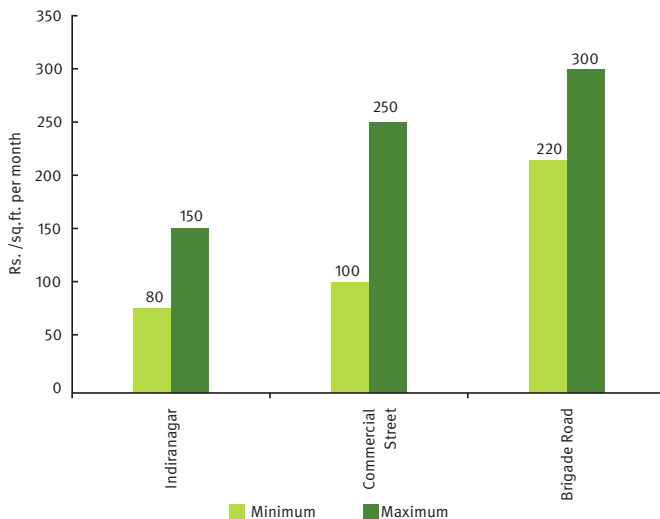
Micro-market	Anchor rentals (Rs./sq.ft. per month)			Vanilla rentals (Rs./sq.ft. per month)		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Hebbal	20	25	23	30	60	42
Whitefeild	22	40	25	40	70	54
Koramangala	30	40	33	55	175	82
CBD	25	45	42	50	175	130
Mysore Road	20	30	24	40	60	46

Source: Knight Frank Research



Figure 35

### Highstreet Rentals



Source: Knight Frank Research

### Highstreet

Bengaluru's highstreet has been in existence since the 1950s and still continues to be a major driver for retail in the city. Brigade Road, the most sought after highstreet is located in the heart of the city. It houses some of the biggest flagship stores of established brands. Footfalls on this contemporary retail street are the highest in the city. Given the fact that vacancy is quite low and new supply is limited, brands will have to accept the expensive rentals. The rentals at Brigade Road vary from Rs. 220-300/sq.ft. per month

Commercial Street is another prominent highstreet market located in the CBD. It is part of the traditional shopping area of Bengaluru and is located in the retail hub of the city. This highstreet is characterised by long-established and home-grown retail stores. Although Commercial Street has retained its character over the decades, it has also evolved over time, providing a mix of traditional as well as more contemporary national and international brands. Almost half of this highstreet is occupied by traditional and small shops that find enough business from its loyal customers; but at the same time, new brands have also been successful in attracting a steady flow of footfalls, making it an important retail destination within the city. Almost all retail segments are well represented along this street, including apparel, footwear, kids wear, jewellery and food outlets. The rentals for Commercial Street vary from Rs.100-250/sq.ft. per month.

Another prominent highstreet is the 100 Feet Road in Indiranagar which is located towards the east zone. Indiranagar emerged as a large planned residential layout in Bengaluru during the 1980s and 100 Feet Road has become its most important road housing most of the highstreet outlets in the area. Consumer demand in this highstreet is largely driven by the software and knowledge sector professionals.



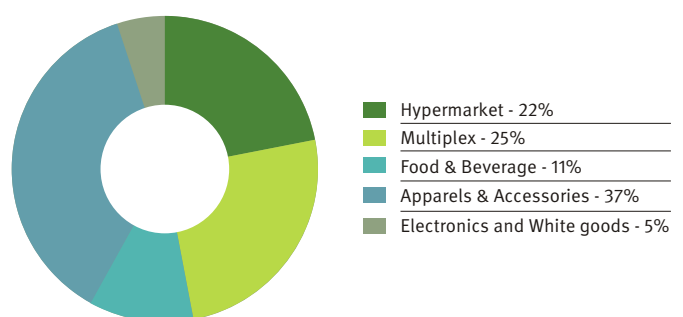
Unlike the congestion seen in other highstreets in the city, the 100 Feet Road is a well laid-out retail stretch with the presence of exclusive retail stores and high-end restaurants. The catchment of the prime residential areas in and around Indiranagar contributes to the steady growth of footfalls along this stretch. The rentals in this location vary from Rs. 80-150/sq.ft. per month.

## 5. Product Category Distribution

The cosmopolitan culture prevalent in the city along with the need for instant gratification has influenced the buying pattern in malls. Unlike other Tier-II cities where the consumer looks for the best deal,, purchase decisions in Bengaluru are highly influenced by convenience. People in the city do not mind paying a little more for the same product if they can get it conveniently and quickly. This is fairly reflected in apparel stores and hypermarkets. Multiplexes are also vital in increasing foot-falls in malls in the city. A case in point is the Sigma Mall on Cunningham Road which was performing poorly before Fun Cinemas started operations. The average mall occupancy in prime micro-markets across the city reflects a healthy scenario.

Figure 36

### Product Category Distribution - Anchor Tenant



Source: Knight Frank Research

# Q1 2010 INDIA ORGANISED RETAIL MARKET

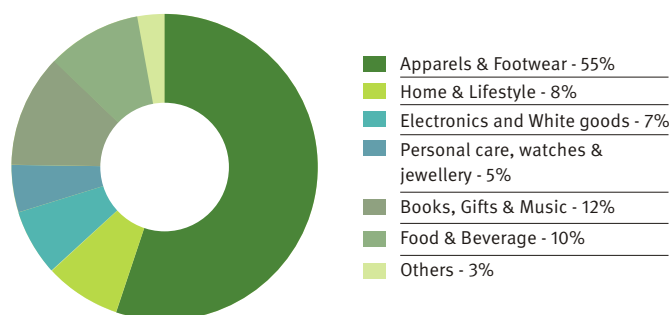
## Diagnosis & Outlook

With the exception of Hebbal which has mall occupancy of 72%, the remaining major micro-markets like Whitefield, Koramangala and Mysore Road have occupancies varying between 85-90%.

The study on malls' tenant profiling reveals that a majority of the anchor tenants taking up space in malls belongs to the apparel and accessories category at 37% followed by multiplexes like PVR and Fame Cinemas at 25% and hypermarkets like Spar, Star Bazaar and Food Bazaar at 22%.

Amongst the vanilla tenants, mall space in Bengaluru is dominated by the Apparel and Footwear category, at 55%. Prominent among them are Adidas, Nike, Van Heusen, Provogue and Levis. It is followed by the Books, Gifts and Music category like Landmark and Archies at 12% and Figure 37

### Product Category Distribution - Vanilla Tenant



Source: Knight Frank Research

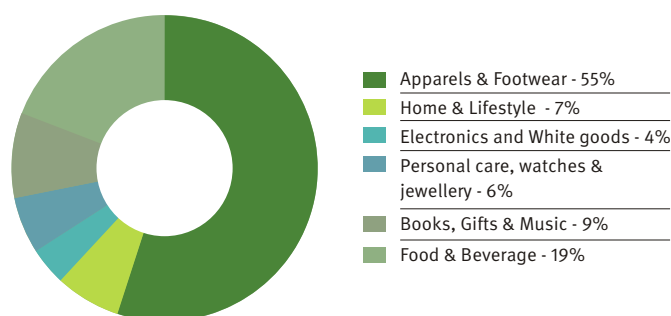
Food and Beverages category like McDonalds, and KFC at 10%.

## Highstreet

An analysis of tenant profiling was carried out at select highstreet locations within the city as well. The study covered two key highstreets of the city namely Commercial Street and Indiranagar. But in case of the study on highstreets the categorization of stores has been based on products, rather than both products and store area.

Figure 38

### Product Category Distribution- Highstreet



Source: Knight Frank Research

The study of highstreets reveals that Apparel and Footwear occupy majority of the retail space i.e. approximately 55%. These are closely followed by Food and Beverages at 21%. Books, Gifts and Music follow next with 9%. From the above values it can be surmised that as is the case with malls, primary contributors to the highstreet retail sector are apparel and footwear.

## 6. Mall: Operational Profile

With the onset of the economic slowdown, cost has been a major concern for mall developers and retailers alike. The study has tried to cover various costs involved, from the perspective of a retailer and present findings in following sections:

Table 25

### Rent as a percentage of Revenue

Micro-market	Rent and CAM as a percentage of Revenue	
	Vanilla (%)	Anchor (%)
Hebbal	13	9
Koramangala	19	10
Whitefeild	15	13
CBD	20	13
Mysore Road	15	10

Source: Knight Frank Research

In Bengaluru most retailers look at occupancy cost, which includes lease rentals and Common Area Maintenance (CAM) charges, as determining factors on how the store is performing. Amongst the malls in the city it varies from 11-19% of the total monthly revenue for vanilla tenants and by 8-13% for anchor tenants. In micro-markets within the CBD and certain locations in the south like Koramangala, the occupancy cost is higher when compared to other micro-markets across the city.

On carrying out a study of the revenue generated by retailers in different malls in the city it was observed that anchor tenants in malls in the CBD had the highest average trading density (ATD) of Rs.470/sq.ft. per month as opposed to a Rs.180/sq.ft. per month which was the lowest average trading density observed amongst anchor tenants in the city. Among vanilla tenants, again the CBD witnessed the highest value of Rs.680/sq.ft. per month when compared to the other micro-markets.

Currently a large number of anchor tenants in the city pay rent as per a revenue sharing model. It involves a fixed component (Minimum Guarantee) and a variable component which is based on a percentage earned on the retailers revenue. After the economic slowdown which translated into uncertain revenues for retailers, the revenue sharing model has gained greater acceptance amongst the players. A large number of anchor tenants as well as vanilla tenants in the city follow this revenue sharing model.



Table 26

**Average Trading Density in Malls (On Saleable Area)**

Micro-market	Average Trading Density (Rs/sq.ft. per month)	
	Vanilla	Anchor
Hebbal	280	180
Koramangala	640	420
Whitefeild	481	250
CBD	680	470
Mysore Road	330	220

Source: Knight Frank Research

While the fixed rental is based on the size and location of the store, the variable component primarily depends on the type of retail unit and the brand value it commands. For instance the variable component of an apparel store in the city is 10% as it is driven by a large volume but that of a jewellery store or a computer store varies between 2-3% as they are high value sale categories. These models are reflective of the fact that retail market in the city has become tenant driven where the retailer has a better negotiating power. The Average Trading Density reveals that currently besides the CBD and Koramangala, malls in other major retail micro-markets are yet to pick up post the economic downturn.

## 7. Outlook

The organised retail market in Bengaluru is poised to grow at a faster rate as retail markets in the city stabilize and retail projects which were stalled and delayed, restart. The primary reason for the same has been the onset of the economic down turn in 2008 which curbed retail spending as most people in the city were keeping their expenses to a minimum. Currently with the markets stabilizing, consumer spending has increased and if sustainable, is likely to provide a major boost to malls in the city.

The demand for retail in Bengaluru was always strong and predominantly led by the consumers from the IT/ITES sector. Post the economic downturn the poor market conditions had a negative impact on the retail sector. A considerable number of mall projects which were launched between 2006 and 2008 were stalled. Currently due to the stabilization of retail markets the inherent retail demand is expected to be revived and would contribute significantly to the success of upcoming mall space.

A majority of the residents in the city fall under the middle income category and most of the retail consumers believe in convenience shopping. Residents of the city do not look at value beyond a point and if the increase in product price is manageable they prefer buying from a convenient place. In other words people who frequent malls prefer shopping in one place as opposed to frequenting different

places for the right price. The only zone in the city where this behavior does not hold true is West Bengaluru which houses micro-markets with the oldest residential catchments in the city like Malleshwaram and Rajaji-nagar. A majority of the people residing in these locations prefer shopping in highstreet locations around the area where they get better value for the product. In spite of this behavior the acceptability of malls in the west appears to be improving slowly after the entry of Mantri Square, the first mall to be operational in the west zone which is generating a strong consumer interest.

With approximately 6.18 mn.sq.ft of organised retail space expected to come up during the next three years there is a possibility that there could be an oversupply of mall space in the market, and investing in a new mall can be considered a risk. The stabilisation of the economy would play a major role in future mall development. Currently the major contributors to mall footfalls are Multiplexes and Food Courts. Most retail developers believe that in the next two years the market for organised retail space in the city would grow especially towards North Bengaluru where mall space is currently quite low and it presents a great opportunity for first mover entity in the respective micro-market here. With residential development currently focused on the southern and eastern zones of the city it provides immense prospect for mall development in micro-markets within these locations. Locations like Hebbal in North Bengaluru, Sarjapur in East Bengaluru and Kanakpura Road in South Bengaluru are prominent micro-markets which are expected to contribute to retail demand. Most of the upcoming malls have already been pre-leased reflecting the increasing demand for organised retail space which is expected to lead to appreciation in the rental values in the near future. In the next few months, the highstreet rentals in CBD may see a marginal decrease due to the ongoing Metro project as well as lack of parking space in its vicinity. Following the shifting of the airport and decreased traffic congestion, the micro-markets of Indira Nagar, CMH Road and Airport Road are likely to witness a boost in their retail activity.

The development of infrastructure initiatives like the Bangalore metro railway system is expected to fuel retail development in the city. The recently developed Elevated Highway on Hosur Road has increased connectivity of people living in Electronic City, which is on the outskirts, with Koramangala, a developed micro-market. This is set to benefit organised retail in Koramangala like the Forum Mall. The development of the Bangalore Airport in Devanahalli, North Bengaluru and the subsequent development of road network in the zone has provided better connectivity to locations in the north like Yelahanka, Hebbal, Doddabellapur and it's just a matter of time till a good residential catchment develops in this zone. This is expected to contribute to the development of retail in this zone in the future.

# Q1 2010 INDIA ORGANISED RETAIL MARKET

Diagnosis & Outlook

WITH THE RERP BEING MUCH GREATER THAN THE ORM IN 2012, THERE WOULD BE AN OVERSUPPLY OF 5.41 MN.SQ.FT. THIS OVERSUPPLY CAN BE CONSIDERED VERY HIGH SINCE IT IS FAR GREATER THAN 30% OF THE TOTAL RETAIL STOCK

Mall rentals have undergone a significant change post the economic downturn. Most retailers are renegotiating existing contracts as they are unable to sustain the current lease rentals. For new retail space most retailers prefer a revenue share model, which is a percentage of revenue earned by the retailer, over a conventional lease rental. Most retail developers have had to comply with the revenue sharing model to avoid losing retailers. Once the proposed malls in the city are developed it is expected to put further downward pressure on lease rentals as competition increases. The city is expected to develop into a retailers market with most retailers expected to have more retail space options to choose from and use it as a bargaining tool when it comes to deciding the lease rentals.

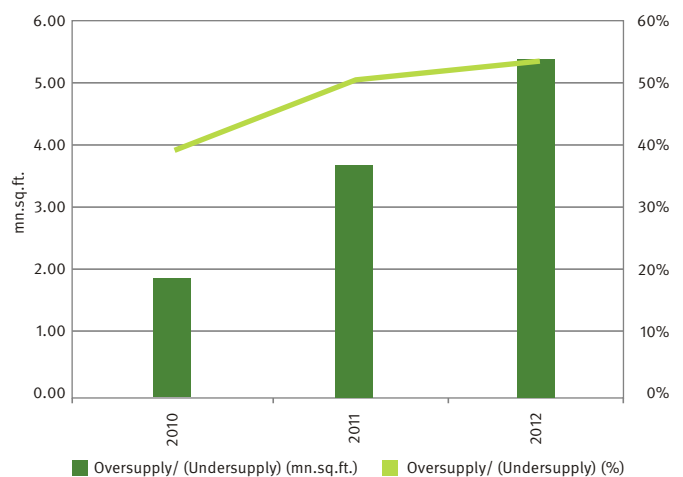
The future for retail is expected to improve in Bengaluru. New malls like the Arch Mall in Rajarajeshwari Nagar and Mantri Square in Malleshwaram are generating significant consumer interest. Most developers and retailers in the market will keep tabs on the performance of this mall in the near future as an indicator to retail development in the city. More importantly for the success of organised retail market in the city, the economic condition would have to stabilize before there is an improvement in consumer spending and further development of the retail sector

As was the case with the other cities in India, in order to understand whether Bangalore will have an oversupply or undersupply of retail space, Knight Frank Research developed a Retail Demand Supply Forecast Model. Through this model, we calculated the total organised Retail Market (ORM) for 2010-2012 and also estimated the Real Estate

Retail Potential (RERP) during the same time period. We forecasted that the ORM would grow from Rs. 12 billion in 2009 to Rs. 27 billion in 2012 while the RERP would reach Rs. 69 billion from Rs. 22 billion. The 6.18 mn.sq.ft. of supply infusion that the city will experience between 2010 and 2012 would account primarily for the increase in the RERP. However, with the RERP being far greater than the ORM in 2012, there would be an oversupply of 5.41 mn.sq.ft.. This oversupply can be considered very high since it is a lot greater than 30% of the cumulative retail stock. With such a high vacancy rate from 2010 till 2012, we would expect developers to stall or defer some of their projects such that this vast oversupply that is being predicted reduces. If not, the demand supply equilibrium will never be met.

Figure 39

## Bengaluru: Retail Real Estate Scenario



Source: Knight Frank Research





# HYDERABAD

## 1. Market Overview

Hyderabad, the capital city of Andhra Pradesh with more than 4 million people, is one of India's largest metropolitan cities. Over the last ten years, Hyderabad has transformed into one of the most developed cities in the country. It has emerged as one of the prime IT hubs of India, primarily due to the sops offered by the state government and availability of trained manpower.

Besides being one of the most preferred IT/ITES destinations, the city has undergone a sea change on the real estate front in the last few years. A couple of decades ago major retail hubs in the city were M.G. Road, Abids, Charminar and Bank Street in Koti. The past decade saw the emergence of several popular retail destinations such as Somajiguda, Sardar Patel Road and Punjagutta. Currently the most sought after retail destinations are Banjara Hills Road No.1 and Jubilee Hills. This rise in the retail market is primarily attributable to an increase in the job opportunities, which in turn, is due to the growth of the IT/ITES sector, increase in per capita income levels and exposure to various retail brands and market trends. Of late, Madhapur has also become a preferred retail location in the city.

Today, Hyderabad has the presence of a host of popular brands across segments such as apparel, footwear, music and entertainment, F&B as well as multiplex operators. While some of the large retail players like Lifestyle and Shoppers Stop and mall projects like Hyderabad Central are located on Begumpet-Punjagutta strip, other prominent mall projects like GVK One and City Centre Mall are located on Banjara Hills Road No 1. Lumbini Mall on Banjara Hills Road No. 3 and Inorbit Mall at Madhapur form a part of the retail stock in the city as well.

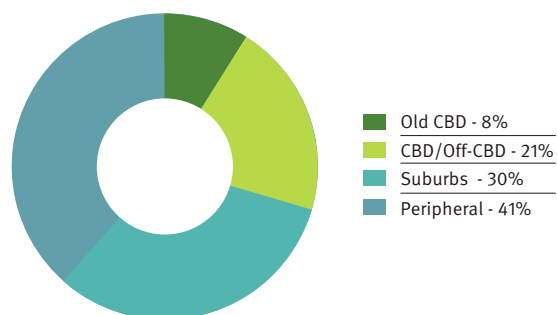
The city has recently witnessed the emergence of new concept retailing like the SVM@36 Mall at Jubilee Hills Road No. 36 which is primarily a gaming mall and the KFC Freeway pick-up counter at Hi-tech City, Madhapur. Besides these operational retail projects, there are about 14 proposed shopping malls, totalling upto about 3.6 mn.sq.ft. and spread across different micro-markets, which expected to enter the market by 2012.

However, most developers, who launched their mall projects with high aspirations, had to put them on hold due to the economic slump that hit the market in Q42008. The recent recession has affected the pace at which the real estate market in the city has grown over the past 6-7 years. Whilst the outlook towards the city remains positive, retail development in the city depends on factors such as market reaction to gradual recovery from the recession and the need for political stability in the region.

While cities across India reeled under the effect of the economic downturn, the year 2009 witnessed the entry of some of the most awaited retail developments in Hyderabad. The city saw the launch of GVK One at Banjara Hills and Inorbit Mall at Madhapur with areas of 0.35 mn.sq.ft. and 0.77 mn.sq.ft. respectively. The main anchor in GVK One is Shoppers Stop; it also marked the entry of multiplex operator INOX and other new brands like Mango, Ruci & Itoni and Alcott, into the Hyderabad market. Inorbit Mall has also infused considerable retail space in the city and houses anchor tenants like Shoppers Stop, Lifestyle and Hypercity, the largest hypermarket in Hyderabad. The entry of these two large scale retail projects notwithstanding, the retail scenario in the city has not been too bright.

Figure 40

### Distribution of retail stock



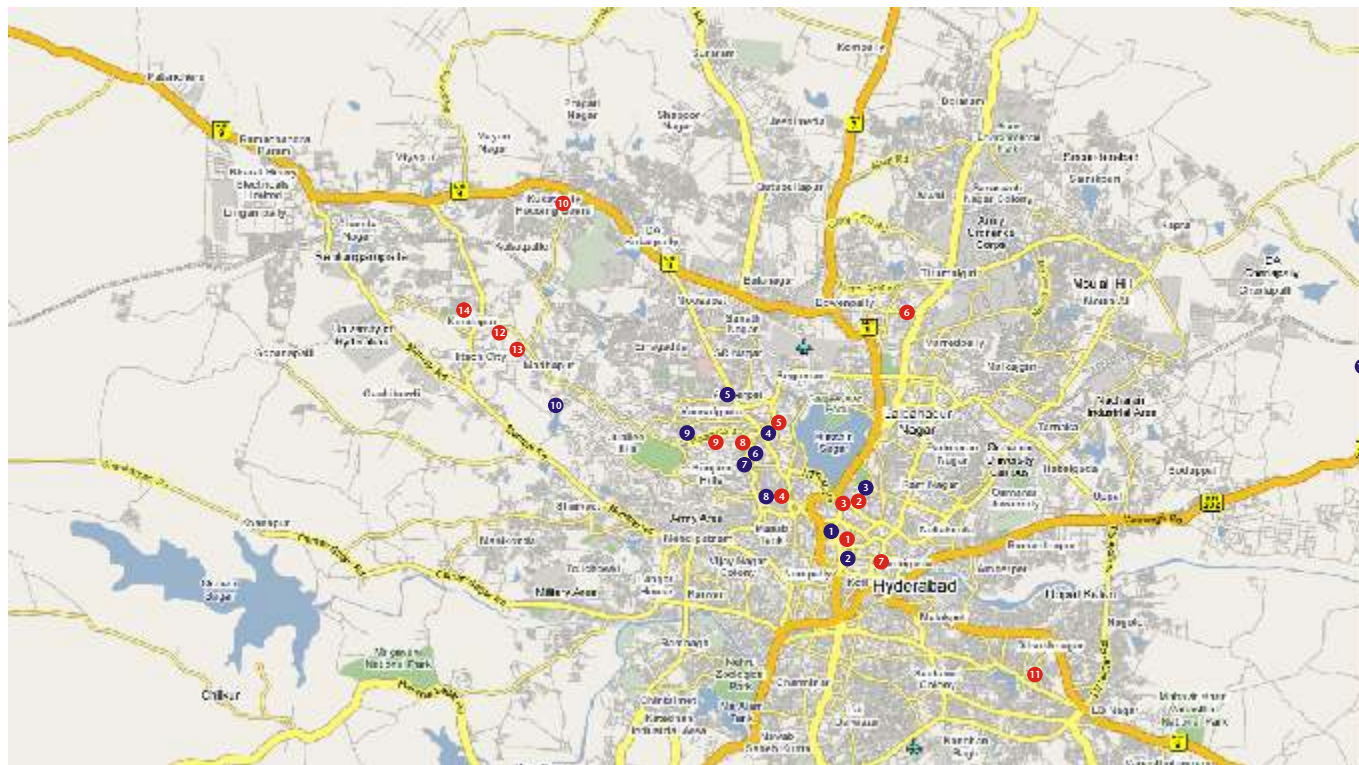
Total Area 3.05 mn.sq.ft.

Source: Knight Frank Research

# Q1 2010 INDIA ORGANISED RETAIL MARKET

Diagnosis & Outlook

## Hyderabad



● UPCOMING	● EXISTING
1. Prajay celebrity mall	1. Sanali Mall
2. MPM bonsai mall	2. MPM mall
3. Ashoka Scintilla	3. Prasad's Imax
4. Down town mall	4. Hyderabad Central
5. Mahavir Mall	5. GS 24 carat
6. Land mark	6. GVK one
7. Mall at Maheshwari Parameshwari theatre	7. City centre
8. Times square	8. Ashoka Metropolitan
9. DLF towers	9. Lumbini jewel
10. Manjeera trinity	10. Inorbit
11. Prajay princeton towers	11. The Village
12. Legend mint	
13. Market city Salarpuria	
14. City Capital Mall	

Projects like MPM Bonsai located at Himayatnagar and Prajay Princeton Towers at Dilshuknagar by Prajay Engineers, which were originally mall spaces, have now been converted to hotel cum malls. There has been a lull in the retail real estate market and in the past two years, only two retail projects, Sharat's City Capital mall by skill developers and the other by Soma Enterprises, were announced in the city.

## 2. Operational Mall Analysis

Hyderabad has a total stock of 3.05 mn.sq.ft. of mall space spread across different micro-markets. Majority of the large format malls are present in the peripheral and suburban region of the city. Since this study on retail market is limited to malls which cover an area of more

than 0.15 mn.sq.ft., hence reference shall be made to only those malls taken into account. For convenience the city has been divided into four zones where retail activity is present. The following table and pie-chart describe the various micro-markets and the stock distribution in each zone:

### Old CBD

The traditional retail markets in this zone comprise Old CBD locations like Abids, Koti and Nampally where retail presence was primarily in the form of unorganised retailing. MPM Mall and Sanali Mall, both operational since 2005, are two main organised retail formats in this zone. These malls constitute 8% of the total retail stock that comes to about 0.25 mn.sq.ft. at Abids. This zone has a vacancy rate of 12%.

Table 27  
Zonal Classification

Zone	Locations
Old CBD	Abids, Nampally,
CBD/Off-CBD	S.P Road, Begumpet, Panjagutta, Ameerpet, Himayatnagar
Suburban markets	Nagarjuna Circle, Banjara Hills, Jubilee Hills
Peripheral markets	Madhapur, Hi-tech City, Kondapur, Kukatpally, Miyapur, Uppal, Saroornagar, LB Nagar, Pocharam

Source: Knight Frank Research



## HYDERABAD HAS A TOTAL STOCK OF 3.05 MN.SQ.FT. OF MALL SPACE WITH THE PRESENCE OF A HOST OF POPULAR BRANDS ACROSS SEGMENTS.

Significantly, Sanali Mall has been observed to have a steep increase in vacancy levels, close to 50% of the mall area. This can be mainly attributed to the one-way approach road to the mall, lack of mall visibility and improper brand and anchor tenants mix.

### CBD/ Off-CBD

Begumpet, Somajiguda, Raj Bhawan Road, Ameerpet and Himayatnagar form the major CBD and Off-CBD locations of the city. This zone accounts for 21% of the stock, to the tune of almost 0.63 mn.sq.ft. with projects like Hyderabad Central, GS 24 Carat and Prasadz Imax, being the major operational malls. Several major retail brands like Lifestyle, Shoppers Stop, Reliance Trends and many other national and international brands as well as F&B outlets have marked their presence in the malls and highstreets of the region. Major highstreets in this zone are present in Himayatnagar, Raj Bhavan Road and Begumpet. Significantly, no vacancy levels are observed in the malls in this zone. The upscale residential catchment in the vicinity has ensured a fairly good business in both, the malls and highstreets here.

### Suburban Markets

The suburban micro-markets like Nagarjuna Circle, Banjara Hills and Jubilee Hills have a unique mix of highstreet as well as organised retail space. It contributes a major part to the existing retail stock due to a large number of operational malls located in Banjara Hills and its vicinity.

Major operational malls in these micro-markets include GVK One, City Center Mall, Ashoka Metropolitan Mall, The Lumbini Jewel Mall and SVM@ 36, which comprise 30% of the total stock, translating to around 0.93 mn.sq.ft. As mentioned previously, SVM @ 36 located on Jubilee Hills Road No.36 is a new format consisting of a gaming and entertainment zone with a food court. The vacancy rates in this zone are fairly low and account for 8% of the stock in the micro-market. As an exception to this, Ashoka Metropolitan Mall is the only retail project in this zone having a vacancy rate of 60%. This substantially high

vacancy rate maybe due to several factors, some of them possibly being improper brand mix, poor ambience, lack of a clutter free approach to the mall (as it is at the junction).

### Peripheral Markets

The peripheral zone of the city with the presence of organised retail market encompasses locations like Madhapur, Hi-tech City, Kondapur, Kukatpally, Miyapur, Uppal, Saroornagar, LB Nagar and Pocharam. Inorbit Mall at Hitech city is the only operational project in the peripheral micro-markets apart from The Village at Raheja Mindspace in Pocharam which is ready for occupation. This zone itself contributes around 41% to the existing retail stock to the tune of 1.25 mn.sq.ft. So far it is the largest mall in Hyderabad with a total BUA of 0.77 mn.sq.ft. with a four level car parking facility; located at Hi-tech City amidst the IT parks overlooking the Durgam Cheruvu Lake. Major tenants in Inorbit Mall are Shoppers Stop, Lifestyle and Hypercity. Hypercity is the biggest hypermarket in Hyderabad with 0.1 mn.sq.ft. of space. Many popular vanilla tenants like Raymonds, And, Damilano Italia, Mochi, Puma etc., have occupied space in Inorbit Mall.

Table 28

#### Mall Vacancy

Micro-market	Mall Vacancy
Old CBD	12%
CBD/Off-CBD	0%
Suburban	8%
Peripheral	0%

Source: Knight Frank Research

## 3. Upcoming Supply Analysis

A total of approximately 3.62 mn.sq.ft. of new retail space supply is expected to enter the Hyderabad market. Of the new upcoming supply, about 0.15 mn.sq.ft. contributing to about 4% of the supply is expected to enter the Old CBD by the end of 2012. Amongst the retail projects underway here, note can be made of the 0.15 mn.sq.ft. Prajay Celebrity Mall by Prajay Engineers Syndicate.

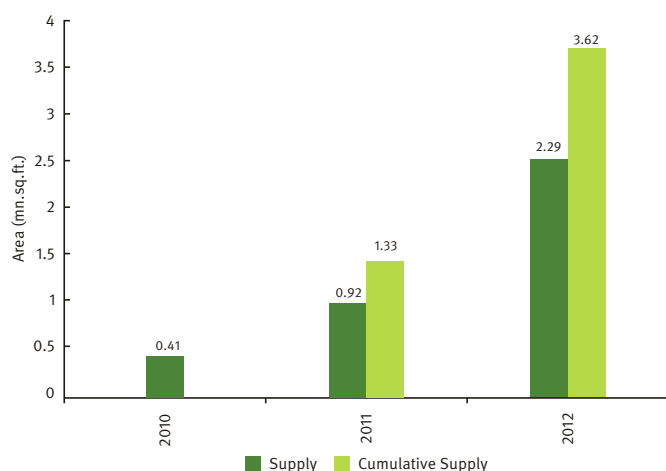
In the CBD/Off-CBD locations an estimated supply of 0.76 mn.sq.ft. that comes to about 21% of organised retail space is expected to enter the market by the end of 2012. Hyderabad based Soma Enterprises has ventured into developing retail space and launched its project at Musheerabad with an area of 0.9 mn.sq.ft. in the CBD and is scheduled to be ready by Q3 2013. Other notable malls under construction in the CBD/Off CBD region include MPM Bonsai and Ashoka Scintilla Mall, both located at Himayatnagar and are expected to be operational by Q3 2010.

# Q1 2010 INDIA ORGANISED RETAIL MARKET

## Diagnosis & Outlook

Figure 41

### Year-wise distribution of supply



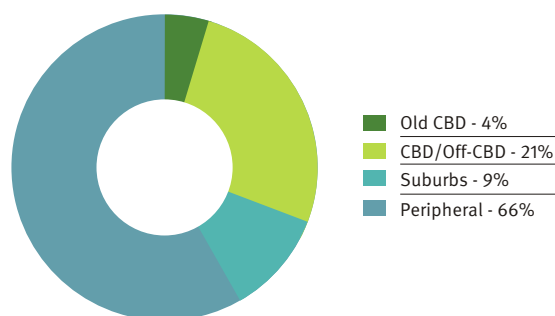
Source: Knight Frank Research

The current year 2010 is also slated to witness completion of the mall at Kachiguda on the erstwhile Maheshwari and Parameshwari theatres, contributing additional space of around 0.2 mn.sq.ft. to the new retail supply. Mahavir Mall at Somajiguda by Mahavir Constructions and Down Town Mall at Lakdikapul by Rooshnah Infrastructure shall infuse around 0.2 mn.sq.ft. of retail space by the end of 2011. Other projects like Landmark Mall at Karkhana which is expected to be operational by the end of 2012 shall infuse around 0.15 mn.sq.ft. of new retail space in the city's market.

On the other hand, significant projects in the CBD/Off-CBD areas that have been temporarily deferred are DLF Mall at Basheerbagh and the mall planned at the Old Sangeeth Theatre, as well as Club 4 Mall at Marredpally. A supply of 0.31 mn.sq.ft. that totals to about 9% of the total supply was anticipated to enter the suburban market in 2008 but failed due to the realty slump. Significant projects that have been further deferred in this region include Times Square by MPM Group at Nagarjuna Circle. Other projects like Jubilee Hills Landmark at Jubilee Hills have been put on hold and DLF Towers at Banjara Hills is expected to enter the market by the end of 2011.

Figure 42

### Distribution of upcoming supply (2010-12)



Total Area 3.62 mn.sq.ft.

Source: Knight Frank Research

Out of the total supply that is anticipated to enter by 2012, the peripheral zone contributes 2.4 mn.sq.ft. which is close to 66% of the total supply. Amongst the micro-markets comprising the peripheral zone, Kukatpally dominates the upcoming supply with approximately 8 malls underway in a km. stretch radius. This micro-market also enjoys proximity to huge catchment areas. However, out of the total potential supply of 10.83 mn.sq.ft. in the peripheral region anticipated to be completed by the end of 2012, only 22% of the supply is expected to enter the market. This is because a large quantum of key residential projects in the peripheral areas has been deferred due to the economic slump. Since most of the major retail malls are highly dependent on the residential catchment of the area, the deferment of these residential projects in turn led to the deferment of several retail projects as well.

Majority of the supply will be infused by the 0.2 mn.sq.ft. of retail in the hotel cum mall project Prajay Princeton Towers at Dilshuknagar, Manjeera Trinity 0.45 mn.sq.ft. at Kukatpally and Legend Mint (0.04 mn.sq.ft.) at Hi-tech City, the mn.sq.ft. mall by skill developers, sharat's City Capital Mall at Konadapur and Market City by Salarpuria at hitech city with 0.6 mn.sq.ft. The rest 78% of the supply has either been put on hold or deferred. These include Iconic Tower and mall in Arena Town Centre at Uppal, Rain Tree Mall at Malaysian Township, Forum Crystal Mall, Phoenix Mall, Prajay Velocity, Mega Mall by Madhucon and Parsvanath Mall at Kukatpally, Lanco Mall at Manikonda and Mall of Hyderabad by Emmar MGF at Gachibowli. Detailed figures of anticipated supply, actual supply and deferred supply is mentioned in Table 29.

Table 29

### Supply Lag in Hyderabad

Year	Anticipated Supply (mn.sq.ft.)	Actual Supply (mn.sq.ft.)	Supply Withdrawn (mn.sq.ft.)	Supply Stalled/Deferred (mn.sq.ft.)
2006	0.95	0.95	-	-
2007	0.82	0.21	-	0.61
2008	6.46	0.08	0.83	5.56
2009	2.69	1.83	0.00	0.86

Source: Knight Frank Research

Some of the noteworthy projects which were expected to be operational in 2007, namely Cache properties at Begumpet, Mahavir Builders Mall on Raj Bhavan Road & GVK One at Banjara Hills etc., were deferred by two years.

The anticipated supply in the year 2007 was estimated to be close to 1 mn.sq.ft., but as the real estate market seemed to be heading towards an upswing, a number of builders deferred their plans to 2008 in anticipation of higher returns and higher rentals.



## APPROX. 3.62 MN.SQ.FT. OF RETAIL SUPPLY IS EXPECTED TO ENTER HYDERABAD BY 2012, WITH THE PERIPHERAL MARKETS ACCOUNTING FOR 66% OF THE TOTAL SUPPLY

Of the total anticipated supply, only about 0.2 mn.sq.ft. of supply actually materialised, which included projects like Lumbini Mall, Ashoka Pinnacle and the Ashoka Dwaraka Chambers.

Most of the projects that were deferred from 2006 and 2007 were expected to be completed in 2008 along with a host of other new projects estimated to enter the market in the same year. The anticipated supply was around 6.5 mn.sq.ft. However, unfavourable market conditions forced about 0.8 mn.sq.ft. of supply to be withdrawn namely the IJM Mall & Hill Ridge's Mall. Most of the supply estimated to be operational in 2008 was deferred by 2 years.

The year 2009 was critical for the entire real estate market with the economic downturn affecting the industry adversely. Consequently, the anticipated supply dropped sharply to about 2.7 mn.sq.ft. compared to the supply in 2008. On the other hand, only 1.8 mn.sq.ft. of the supply which was deferred from 2008, materialized. But 2009 did see the launch of two of the most awaited malls in the city the GVK One Mall and the Inorbit Mall in Hi-Tech City. Other retail projects which began operations in 2009 include the Oyster Mall, Tata Motors and Pantaloons.

A large quantum of supply that had been deferred from 2008 is expected to come into the market in 2011. Out of the total deferred supply, about 0.75 mn.sq.ft. is expected to become operational in 2011, the most notable being the 0.55 mn.sq.ft. Manjeera Trinity in Kukatpally and the 0.2 mn.sq.ft. Mahavir Mall in Somajiguda.

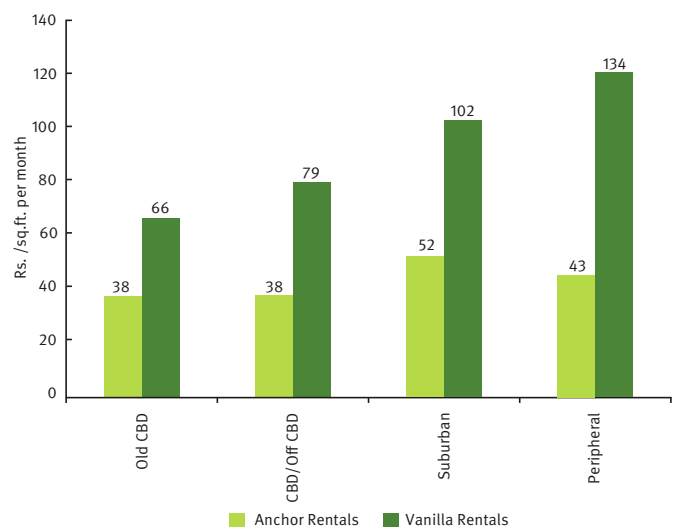
## 4. Rental Profile

### Mall

From the study conducted on the various rental structures of the tenants, it was apparent that the anchor tenants' rentals remain more or less the same across different floors. The average range for anchor tenants is in the range of Rs.38-52/sq.ft. per month. The vanilla tenants' rentals on the ground floor vary from Rs.70-100/sq.ft. per month in the Old CBD areas where as the CBD/Off CBD range between Rs. 70-130/sq.ft. per month. The sub urban and the peripheral zone range from Rs.100-250/sq.ft. per month. There is a difference of 20-25% for the first three floors and beyond that there is no major difference in the rental values. This scenario remains the same in all operational malls except in GVK One where the rental ranges are more or less the same across all floors.

Figure 43

### Average Mall Rentals



Source: Knight Frank Research

The rental for a revenue share model with minimum guarantee varies between Rs.28-40/sq.ft. per month with a revenue share of 5-15%; whereas that for tenants who are not on the revenue share model, range from Rs.150-300/sq.ft. per month. The rentals for vanilla tenants in 2007 were purely on a Leave and Licence agreement.

Table 30  
Rentals In Operational Malls

Micro-market	Anchor rentals (Rs./sq.ft. per month)			Vanilla rentals (Rs./sq.ft. per month)		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Old CBD	35	40	38	40	100	66
CBD/Off CBD	35	45	38	30	130	79
Suburban	35	96	52	30	300	102
Peripheral	37	50	43	70	250	134

Source: Knight Frank Research



# Q1 2010 INDIA ORGANISED RETAIL MARKET

## Diagnosis & Outlook

But post 2008, with the economic slump there has been a shift in the trend and an increasing number of tenants are going for a Minimum Guarantee plus revenue sharing model. This is particularly noticeable in the recently launched large format malls like GVK One and Inorbit.

The average anchor rentals in the old CBD zone are approximately Rs.38/sq.ft. per month. The main anchor tenants in Abids micro-market are Big Bazaar in MPM Mall and McDonalds in Sanali Mall. The CBD/Off CBD zone comprises 3 malls where the main anchor tenants are Big Bazar, Adlabs, PVR Cinemas, Ohri's, Imax and McDonalds. The prevailing average anchor tenant rental in the CBD/Off CBD region is around Rs.38/sq.ft. per month.

At present the suburban zone has 5 operational malls with anchor tenants like Shoppers Stop, Inox, Globus, Max, Crosswords and X-cite. The average anchor rental is approximately Rs.52/sq.ft. per month. On the other hand, the peripheral zone has the presence of only Inorbit Mall as retail stock. The main anchors are Hypercity, Shoppers Stop, Lifestyle and Cinemax. The average anchor rentals are approximately Rs.43/sq.ft. per month.

Average rentals for the vanilla tenants are the least in the Old CBD zone at Rs.66/sq.ft. per month, followed by CBD/Off-CBD with Rs.79/sq.ft. per month. The malls in the suburban and peripheral zones have an average rental value of Rs.102/sq.ft. per month and Rs.134/sq.ft. per month for the vanilla tenants.

Of late, due to the high rentals payable and low revenue generated by retailers, the concept of revenue-sharing has emerged. However, in Hyderabad, only the new malls which were launched in 2009 have a revenue sharing model.

In order to attract footfalls, most of the malls have the concept of a food court within their premises. Most of the food courts in Hyderabad are on a revenue sharing model. While retail projects like Hyderabad Central, Imax and GS 24 Carat had similar rentals for their food court, with a minimum guarantee of Rs.23-30/sq.ft. per month and a revenue share of 5-10%, other malls like City Centre, Lumbini Jewel Mall have fine-dine and F&B options like McDonalds, Subway, Sahib Singh Sultan, Basil, Nirvana etc., with rentals ranging from Rs.100-120/sq.ft. per month. The food courts have a built-up area of around 4,000-6,500 sq.ft. in the CBD/Off-CBD micromarkets, whereas the food courts in the malls in peripheral micro-market have average area of about 20,000 sq.ft.

### Highstreet

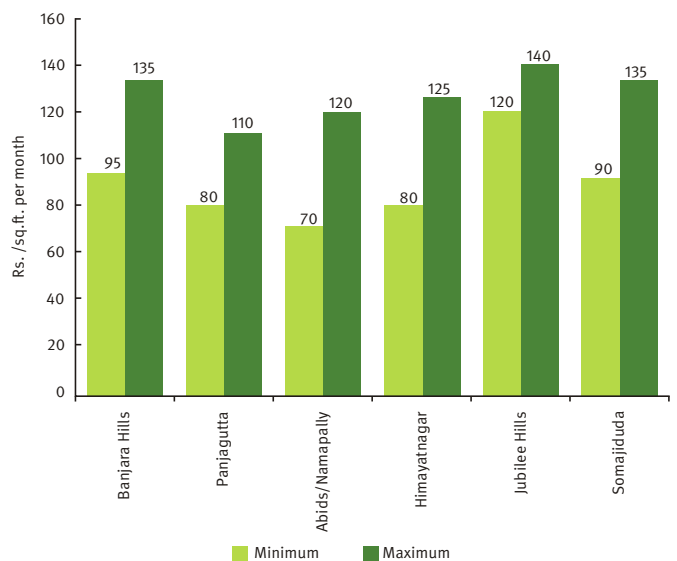
As the rentals have seen a reduction of 20-25% due to the realty slump, highstreet rentals across various micro-markets have been recorded to be stable in Q1 2010. Not much change in rentals is expected in the coming quarters because of the stable market.

Jubilee Hills Road.No. 36 continues to be the most preferred destination for organised retail due to availability of quality space. The lease rentals in this micro-market were at their peak during 2007-08 when it used to command a maximum of Rs.300/sq.ft. per month. Currently the lease values in Jubilee Hills vary from Rs.90-140/sq.ft. per month.

The rentals in Himayatnagar range from Rs.60 -125/sq.ft. per month.

Figure 44

### Highstreet Rentals



Source: Knight Frank Research

A number of interesting trends were observed in the highstreets of the city during the economic slump. A major visible trend was the micro-market switch carried out by some of the tenants. One of the major factors for this was the very high rentals quoted by landlords in Banjara Hills and Jubilee Hills at the time of signing. During the slump, a lot of tenants, who could not sustain rentals for the space they had occupied, decided to vacate and switch to a different micro-market offering much lower rentals.

Another notable development in recent times has been the inclusion of the sub-lease clause. As a consequence of the difficulties faced by tenants during the slump, they are now incorporating a sub-leasing clause in the agreement with the landlord wherein the tenant can sub-lease a portion of the property to a mutually agreeable third party in case they are unable to sustain in the micro-market. The landlords are also open to this idea as otherwise they would lose the current tenant to a different location. For example, Pepe Jeans sub leased a portion of its premises to Cakes & More in Jubilee Hills and Heritage to Reebok in Himayatnagar.



## 5. Product Category Distribution

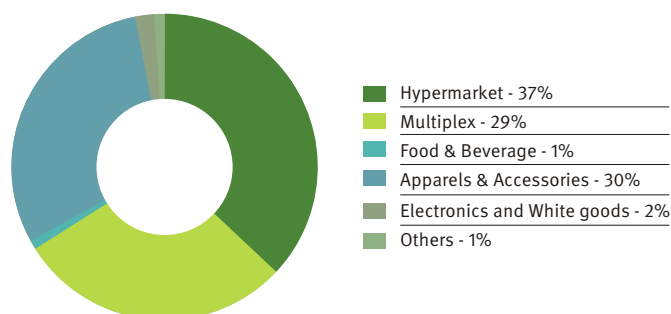
During the course of our study, a number of facts came to light regarding the tenants' profiles in a mall as well as in a highstreet. The findings have been listed in the following sections:

### Mall

Malls in Hyderabad have a healthy occupancy rate of over 90% in most of the micro-markets. The Old CBD is the only exception with MPM Mall and Sanali Mall having 78% occupancy. This relatively lower occupancy rate can be primarily attributed to the cumbersome one way approach road to the mall, which discourages tenants to take up space in the mall readily. In the suburban micro-market, Ashoka Metropolitan Mall has only 40% occupancy mainly because of the presence of too many investors and a cluttered approach to the mall, which is located at the junction. This high vacancy level in the mall has been instrumental in bringing down the occupancy rate for the suburban zone to 92%.

Figure 45

#### Product Category Distribution- Anchor Tenant



Source: Knight Frank Research

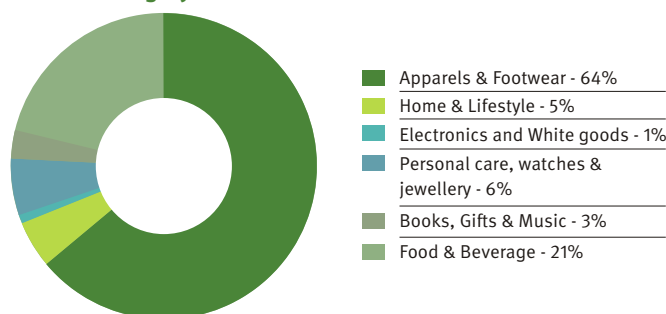
Besides studying the occupancy trends in malls, tenant profiling of the malls was also carried out in order to understand the space occupied by various product categories. For anchor tenants it has been observed that, hypermarkets/departmental stores occupy a major quantum of the space in malls, accounting for 37% of the total anchor tenant-occupied built-up area in the malls studied. The hypermarkets are followed by 'Apparels & Accessories' absorbing around 30% of the total existing mall space occupied by anchor tenants. Multiplexes are the third largest occupiers, to the tune of around 29% of the mall space stock occupied by anchor tenants, as they are considered to be the main crowd-pullers in a mall. The remaining anchor tenant area is accounted for by F&B, Electronics & White goods and other stores.

Similar to anchor tenants, there was a profiling of vanilla tenants too. Not surprisingly, 'Apparel & Footwear' occupy the largest quantum of mall space, accounting for about 64% of the total retail stock of vanilla tenants. It is then followed by 'Food & Beverage' with a share of 21% of

the space occupied by vanilla tenants in malls. It is observed that restaurants, fine-dine concepts and coffee shops in the tenant mix attract a good number of footfalls to the malls. Personal care, Watches & Jewellery with 6% share, Home& Lifestyle with 5%, Books, Gifts & Music with 3% form the rest of the total retail vanilla stock.

Figure 46

#### Product Category Distribution- Vanilla Tenant



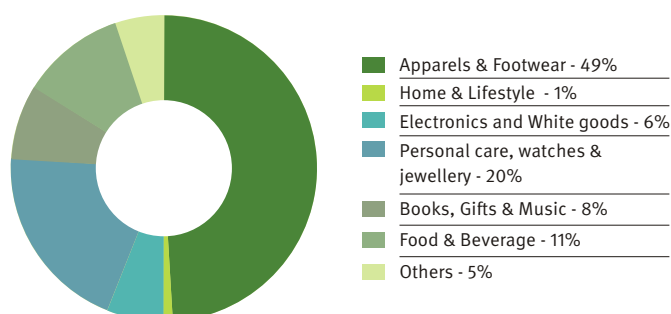
Source: Knight Frank Research

### Highstreet

Two prominent highstreets of Hyderabad, namely Himayatnagar in the CBD/Off-CBD and Jubilee Hills Road No.36, located in the suburban micro-markets of the city, were selected for the study to determine the number of brands falling under various product categories. Some of the prominent stores in Himayatnagar include World of Titan, Reebok, Adidas, Levis, Spykar, KFC and Puma; while brands like Croma, Pantaloons, CCD, Stephen Brothers, Chutney's and Pepe are present in Jubilee Hills Road No. 36.

Figure 47

#### Product Category Distribution- Highstreet



Source: Knight Frank Research

As with the malls, here also the 'Apparel and Footwear' category has the highest number of stores, which is close to 50% of the existing stock in these two highstreets. It is followed by Personal care, Watches and Jewellery with 20% of the stores and F & B with 11% of the total stock. Books, Gifts & Music with 8% and electronics & white goods bring up the rest with minimal presence in these highstreets.

# Q1 2010 INDIA ORGANISED RETAIL MARKET

## Diagnosis & Outlook

### 6. Mall: Operational Profile

With the onset of the economic slowdown, cost has been a major concern for mall developers and retailers alike. The study has tried to cover the various costs involved from the perspective of a retailer and present the findings in following sections:

Table 31

#### Rent as a percentage of Revenue

Micro-market	Rent as a percentage of Revenue	
	Vanilla (%)	Anchor (%)
Old CBD	13%	9%
CBD/Off-CBD	11%	6%
Suburban	16%	9%
Peripheral	16%	5%

Source: Knight Frank Research

From the retailer's perspective the study revealed that rent is an important factor out of the various components of cost. It is seen that the vanilla tenants in the mall have average rental values in the range of 11-16% of the total revenue generated. On the other hand, anchor tenants are the ones who occupy larger spaces with lower rentals; hence they have a rent to revenue ratio in the range of 5-9%.

Table 32

#### CAM Charges (on Saleable Area)

Micro-market	CAM charges (Rs/sq.ft. per month)	
	Vanilla	Anchor
Old CBD	5	5
CBD/Off CBD	17	15
Suburban	18	16
Peripheral	25	20

Source: Knight Frank Research

Apart from the rent which is paid monthly by them, retailers are also liable to pay Common Area Maintenance (CAM) charges on a monthly basis for the common area used by all tenants (such as the lobby, elevators, restrooms or parking lots). The CAM charges for a Vanilla tenant would vary from Rs.5-25/sq.ft. per month whereas the Anchor tenants pay CAM charges around Rs.5-20/sq.ft. per month across various micro-markets. The least CAM charges are witnessed in Old CBD areas whereas the highest are recorded in the peripheral micro-market.

Table 33

#### Average Trading Density in Malls (On Saleable Area)

Micro-market	Average Trading Density (Rs/sq.ft. per month)	
	Vanilla	Anchor
Old CBD	491	486
CBD/Off-CBD	679	466
Suburban	645	607
Peripheral	698	545

Source: Knight Frank Research

The most important aspect of retailers is the average trading density that determines the revenue generated by retail outlets in various malls. It is observed that vanilla tenants in peripheral malls have the highest average trading density of Rs. 698/sq.ft. per month, whereas the lowest is recorded in the Old CBD malls at Rs.491/sq.ft. per month. The anchor tenants in the suburban market have recorded the highest Average Trading Density of Rs.607/sq.ft. per month and the lowest was recorded in the CBD/Off-CBD malls at Rs.466/sq.ft. per month.

### 7. Outlook

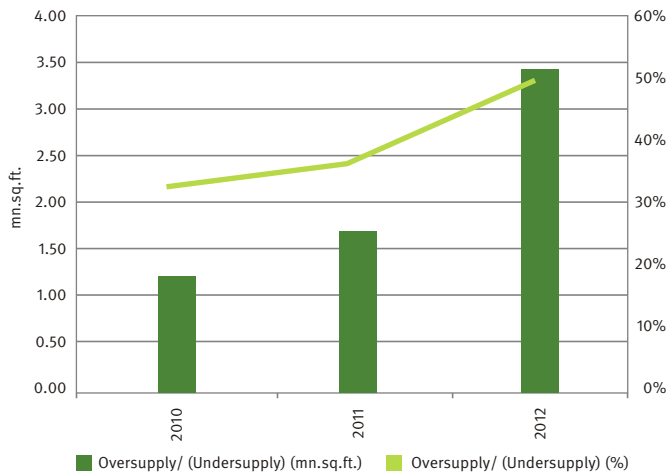
Hyderabad is scheduled to witness a supply of around 3.6 mn.sq.ft. across various micro-markets. It is observed that around 66% of the anticipated supply is expected to enter the peripheral micro-markets. However, the residential catchment in these peripheral markets needs to be developed at a faster pace in order to support the upcoming retail supply in the region.

As observed during the past few years, most of the planned projects have either been stalled or deferred due to the realty slump, lack of fund availability and the increasing risk of supply that will enter the market in the coming two to three years.

THE FUTURE GROWTH OF THE CITY IS EXPECTED TO BE TOWARDS THE WESTERN PART OF THE CITY COMPRISING KUKATPALLY, MIYAPUR, HI-TECH CITY AND GACHIBOWLI. THIS IS MAINLY DUE TO THE PRESENCE OF THE COMMERCIAL HUB AT HI-TECH CITY AND GACHIBOWLI.



Figure 48

**Hyderabad: Retail Real Estate Scenario**

Source: Knight Frank Research

Thus, although it is estimated that the city will be infused with a large amount of new retail space by end-2012, the actual supply may be lower than planned due to deferment of most of the mall constructions. Developers have become more cautious post-recession and many have even deferred the construction of malls after excavation.

On the rental front, prime retail markets like Jubilee Hills, Banjara Hills, Punjagutta and Somajiguda have seen a drop in rentals by 25% in 2007-08 and a further decline by 15-20% in 2008-09 due to the realty slump. However, rentals have been stable since January 2010 across various micro-markets and are expected to remain stable for the next quarter at least.

The future growth of the city is expected to be towards the western part of the city comprising Kukatpally, Miyapur, Hi-tech City and Gachibowli. This is mainly due to the presence of the commercial hub at Hi-tech City and Gachibowli. This region already has a sizeable population and is also slated to become one of the largest residential pockets in the city with maximum number of upcoming residential projects launched here. Of all the micro-markets in the western zone, Kukatpally will witness the highest number of malls concentrated within a smaller area radius. As a result, a demand-supply mismatch is envisioned in the region wherein the supply shall supersede the demand, thereby proving to be a major challenge to the mall functionality.

Knight Frank Research built a Retail Demand Supply Forecast Model in order to calculate whether the various cities in India will have an oversupply or undersupply of retail space until 2012. We estimate that the Organised Retail Market in Hyderabad will double from the existing Rs.14 billion to Rs.28 billion by 2012. However, during the same period the Real Estate Retail Potential will increase much more drastically to Rs.58 billion.

This mismatch, which accounts for the upcoming retail space supply of 3.6 mn.sq.ft. during 2010-12, will lead to an oversupply situation of 3.41 mn.sq.ft. in 2012. At 49% of the organised retail stock in 2012, this oversupply can be termed as very high. The consistent supply of retail space will translate into continued oversupply during these years and hence, keep a downward pressure on price of retail properties.

WE ESTIMATE THAT THE ORGANISED RETAIL MARKET WILL DOUBLE FROM THE EXISTING RS. 14 BILLION TO RS. 28 BILLION BY 2012. HOWEVER, DURING THE SAME PERIOD, THE REAL ESTATE RETAIL POTENTIAL WILL INCREASE TO RS. 58 BILLION. THIS MISMATCH, WILL LEAD TO AN OVERSUPPLY SITUATION OF 3.41 MN.SQ.FT. IN 2012.

# Q1 2010 INDIA ORGANISED RETAIL MARKET

Diagnosis & Outlook

## CHENNAI

### 1. Market Overview

Chennai is the fourth largest city in India by area and the capital city of Tamil Nadu. The city's focus on the manufacturing sector has led to strong infrastructure development in the city. Good intra-city connectivity and presence of an efficient air, road and rail network across regions have added to the attractiveness of the city. The city also has a high urbanization rate reflecting equitable development and growth in the region.

The retail development in Chennai which had stagnated over the past couple of years is expected to witness steady growth in the future. organised retail in the city, by way of malls, developed at a much slower rate as compared to other metros of the country. This can be primarily attributed to the conservative nature of the residents here and the lack of encouragement shown towards new retail ventures by them. This attitude is reflected in the growth of retail in the city where the highstreet format dominates the retail market scenario. Although Chennai is considered to be one of the pioneers in organised retail, with Spencer Plaza being the first mall in the south launched in 2004, it has yet to take off in a big way. As of today there are just three operational malls in the city. The reason for the lack of mall development is because of the consumer buying pattern which is more value driven.

Over the past year, it has been observed that the organised retail market has moved from being developer dominated to retailer dominated. The perceived slump in the retail sector led to retailers re-negotiating existing contracts. Over the past year only one mall has come up in the city. However, the city is expected to witness the infusion of more malls in the next few years with approximately 15 malls being slated to be operational by 2012. Mixed use formats in retail are yet to take off in Chennai but it is expected to contribute to varied retail landscape over time. Unlike other cities across the country, there has not been a significant drop in rental values for malls even with the decline in retail space demand, which can be attributed to the lack of mall space in the market. The three malls in the city currently operate at a very high occupancy.

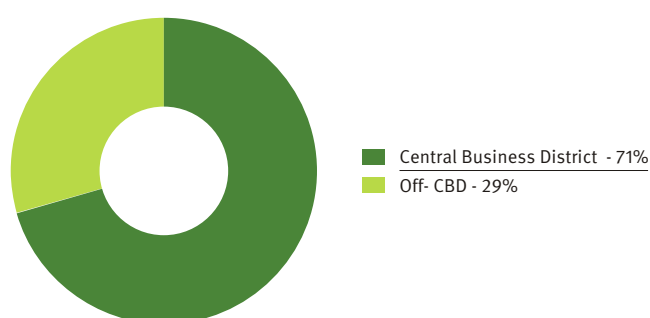
Amongst the upcoming malls, the 0.9 mn.sq.ft. Express Avenue which is expected to be operational by the end of 2010 is the most awaited mall of the year. It is expected to set the benchmark in mall performance in Chennai.

### 2. Operational Mall Analysis

The current retail inventory of malls in Chennai is approximately 1.15 mn.sq.ft. The retail markets are spread across the city and primarily constitute highstreets. Thus, for the stock analysis, we have divided the existing retail market of the city into two zones namely CBD and Off-CBD, based on the presence of existing malls in the city. The city currently has the presence of three malls, of which two are located in the CBD and one in off-CBD locations of the city. Notably, the Spencer Plaza in Anna Salai is one of the oldest malls in the country. Table 34 and Figure 49 depict the presence and distribution of various mall spaces in different zones of the city.

Figure 49

#### Distribution of retail stock



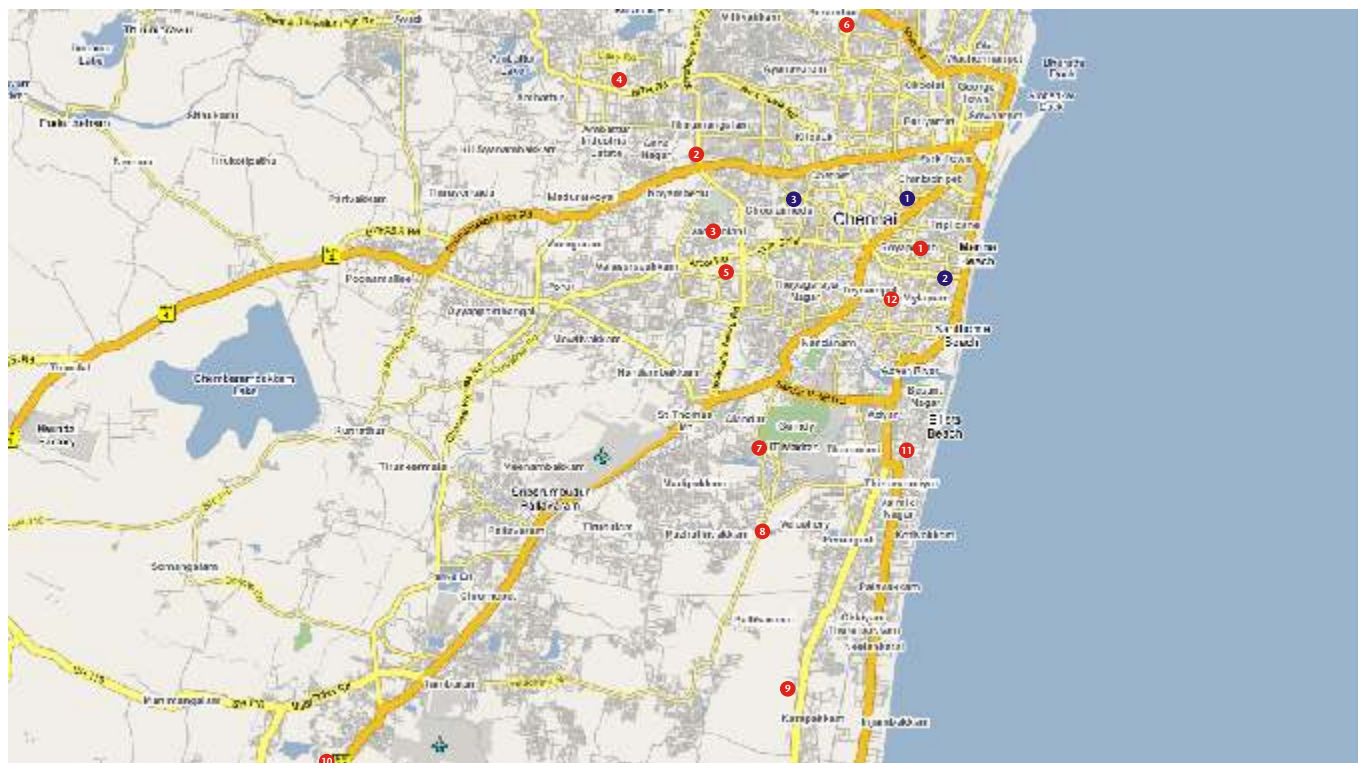
Total Area 1.16 mn.sq.ft.

Source: Knight Frank Research





## Chennai



### ● UPCOMING

1. Express Avenue
2. Ozone Mall
3. Forum
4. Orchid Mall
5. Chandra Mall
6. Spectrum mall/Grand Venus Mall
7. Market City
8. The Grand
9. River side Mall
10. The Gold Souk Grande'
11. TVH Mall
12. Ramee Mall

### ● EXISTING

1. Spencers Plaza
2. Chennai City Centre
3. Ampa Skywalk /Centre One

arrangement of shops. Also, the lack of a multiplex has hampered its growth prospects. However, being located in the heart of the city in Anna Salai, it still manages to attract a considerable amount of the youth brigade, primarily constituting the college going crowd in the city. In spite of its ailments the mall currently has a vacancy of only 5%. This can be primarily attributed to its location advantage and the lack of sufficient organised mall space in the city.

The other mall in this zone is the Chennai Citi Centre located on RK Salai at Mylapore. This mall has a super built up area of 0.35 mn.sq.ft. with Lifestyle and Landmark as its anchor tenants. The mall is located quite close to the popular Marina Beach and has a strong residential catchment in the vicinity. Easy accessibility to the mall and relatively strong patronage from residents in the city has made the mall a fairly successful format. Besides the provision of multiplex operator INOX, food court and other F&B outlets like KFC and Copper Chimney are the major drivers of footfalls in this mall.

## CBD

The CBD, which consists of locations like T-Nagar, Nungambakkam, Mylapore, Alwarpet and Egmore, houses two malls, viz. the Spencer Plaza at Anna Salai and The Chennai Citi Centre along RK Salai in Mylapore. The 0.46 mn.sq.ft. Spencer Plaza, developed by Mangal Thirth Estate Limited, is the oldest organised retail space in the city and was developed in three phases, gradually extending the mall's area. The Plaza has a number of major national and local brands amongst its tenant list, including many leading names in Apparel and Footwear, Jewellery and Electronics. Westside and Landmark are the anchor tenants present in this mall. Earlier as it was the only existing mall in the city it had witnessed a lot of activity but currently the interest in this mall has flagged. When compared to newer malls in the city the Spencer Plaza looks dated in format as well as the

Table 34

### Zonal Classification

Zone	Locations
Central Business District (CBD)	T-Nagar, Nungambakkam, Mylapore, Alwarpet Egmore
Off-Central Business District (Off-CBD)	Anna-Nagar, Amjinkarai, Purusaiwalkam, Kilpauk, Gopalapuram,

Source: Knight Frank Research

# Q1 2010 INDIA ORGANISED RETAIL MARKET

Diagnosis & Outlook

**CHENNAI CURRENTLY HAS 3 OPERATIONAL MALLS, TOTALING UPTO AN INVENTORY OF APPROX. 1.15 MN.SQ.FT.**

During the downturn witnessed last year, this mall saw lower revenues, but business has started picking up now that the markets are starting to stabilize. There is currently no vacancy in this mall and this is a testament to the increase in demand for organised retail space in the city.

Locations like T-Nagar and Nungambakkam are prominent highstreet destinations and pose a serious challenge to malls in this zone, since a greater preference is given to these highstreets as opposed to malls for shopping.

## Off-CBD

The Off-CBD zone which primarily consists of Anna Nagar, Amjinkarai, Purusaiwalkam, Kilpauk and Gopalapuram has the presence of a solitary mall, the Ampa Skywalk, encompassing around 0.34 mn.sq.ft., at Amjinkarai. The anchor tenants in this mall are Star Bazaar and Westside. It was slated to have come up in 2007 but was stalled over a year and a half to be launched finally in 2009. This mall has a strong location advantage due to the presence of a substantial residential catchment in the neighbourhood. Besides, Amjinkarai has always been a favoured retail destination with the presence of a host of discount stores and the construction of the mall was a natural progression in this direction. The mall currently has a vacancy of 10% which is expected to further reduce in the next couple of months. However, the presence of highstreet markets in the adjacent location of Anna Nagar is expected to affect the footfalls in this mall.

Table 35

### Mall vacancy

Micro-market	Mall Vacancy
Anna Salai	5%
Mylapore	0%
Amjinkarai	10%

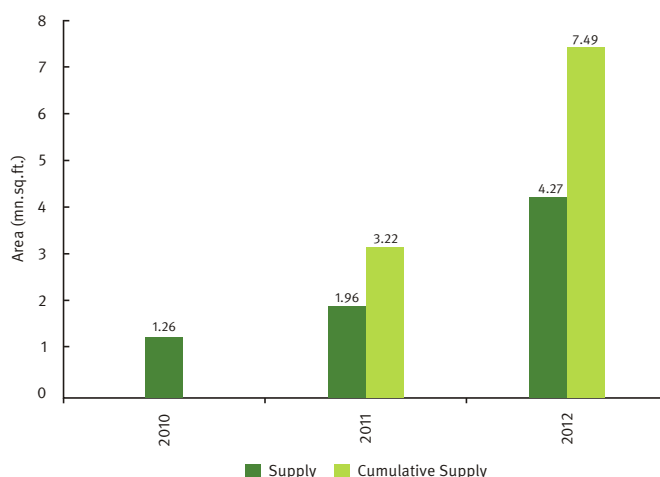
Source: Knight Frank Research

## 3. Upcoming Supply Analysis

In Chennai, presence of the IT/ITeS sector as well the concentration of new residential development has made micro-markets across south and west Chennai some of the most preferred destinations for

Figure 50

### Year-wise distribution of supply



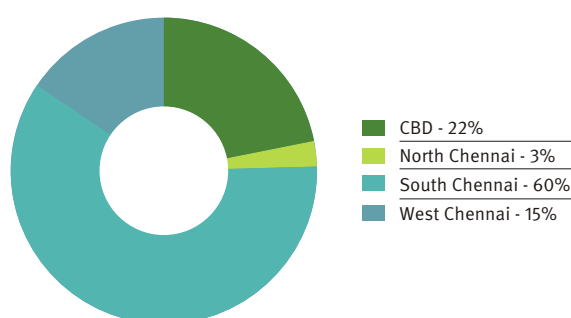
Source: Knight Frank Research

organised retail. This aspect is reflected by the fact that more than 50% of the upcoming malls in the city are in the south. The supply figures show that the city would see the infusion of 15 malls in the next couple of years with a combined space of 7.49 mn.sq.ft. by 2012. Of this estimated space, 1.26 mn.sq.ft. of space is expected to be delivered in 2010, 1.96 mn.sq.ft. in 2011 and 4.27 mn.sq.ft. of space in 2012. In the interim period, highstreet format, being the major driver for retail in the city, is expected to dominate the market. Some of the major developments entering the retail space include Express Avenue (0.9mn.sq.ft.) by the Indian Express Group at Anna Salai, Riverside Mall (0.4 mn.sq.ft.) by Marg Constructions at Rajiv Gandhi Salai, Coramandel Plaza (0.25 mn.sq.ft.) by Suryavardhan Estates at Rajiv Gandhi Salai and Prestige Forum at Vadapalani with close to 1 mn.sq.ft. of built up area.

A majority of the expected mall supply is slated to come up in South Chennai. This region would account for approximately 60% of the total supply. The reason for the focus on development of malls in the south is due to the emerging residential catchment there.

Figure 51

### Distribution of upcoming supply (2010-12)



Source: Knight Frank Research



Chennai Citi Centre, RK Salai

Development of the IT corridor at Rajiv Gandhi Salai has led to a fast-paced residential growth in adjoining locations where there are no existing retail developments yet. The GST Road along which the Chennai Airport lies, also has an emergent residential catchment which is expected to provide impetus to organised retail space in the region. Most of the mall space in this region is projected to be operational by end-2012.

The CBD is expected to contribute around 22% to the total upcoming mall supply in the city by end of 2012. This will mainly consist of retail space in projects like Express Avenue in Anna Salai and Ramee Mall at Teynampet in Anna Salai. Significantly, Ramee Mall initially used to be a hotel property which has been converted into a mall project.

West Chennai is expected to contribute 15% to the total upcoming supply in the city. Similar to the southern region, there is the presence of substantial residential catchment in the western parts of the city as well. These residential pockets have developed on a fast pace over the past couple of years and are expected to grow further. Presently, with no organised retail space to service this catchment, retailers and mall developers have evinced strong interest in the region. Locations like Sriperumbudur, Poonamallee High Road, Anna Nagar and Ambattur are the most prominent micro-markets in the west, which are expected to fuel retail development in the future.

North Chennai is yet to be developed as a retail destination. The lack of residential development in this area and low inclination from the city's potential home buyers to move northwards has led to stagnation in retail activity there. Currently only the Spectrum Mall by Ganga Foundation at Perumbur with a built up area of 0.2 mn.sq.ft. is under construction here. Most of the people staying in this location belong to the low and middle income category and are not expected to significantly contribute to the demand for mall space..

With the boundaries of Chennai constantly expanding, the upcoming mall supply is expected to cater to the growing residential catchment in locations where there is currently a limited variety of retail development. The growing populace is expected to drive the anticipated demand for upcoming malls.

Although the supply figures portray a strong growth for the retail sector, most of the supply poised to enter the market has been carried over from previous years. Table 36 shows the quantum of supply that failed to enter the market year-on-year since 2006. Over the past couple of years there have been a considerable number of upcoming projects which have been delayed and stalled owing to the lack of confidence in market demand post the economic downturn. During the perceived property boom, developers expected organised retail projects to be the next money-spinners and had announced the development of retail projects. Most of the developers were trying to be the first movers in micro-markets hitherto uncharted by organised retail space and had a potential to develop. After the markets corrected these developers saw a decline in retail demand and a correction in prices and hence decided to keep their projects on hold.

Table 36  
Supply Lag in Chennai

Year	Anticipated Supply (mn.sq.ft.)	Actual Supply (mn.sq.ft.)	Supply Withdrawn (mn.sq.ft.)	Supply Stalled/Deferred (mn.sq.ft.)
2006	0.7	0.35	0	0.35
2007	1.6	0	0	1.6
2008	2.35	0	0.4	1.95
2009	0.34	0.34	0	0

Source: Knight Frank Research

Currently, with the markets stabilizing they are reviving these developments which will enter as new supply in the next couple of years. Since 2006 there has been no new supply in the city till last year when Ampa Mall became operational. Of the 4.99 mn.sq.ft. of anticipated mall space only 0.69 mn.sq.ft. is currently operational.

**CHENNAI WILL SEE THE INFUSION OF 15 MALLS BY 2012 TO THE TUNE OF 7.49 MN.SQ.FT., OF WHICH 60% OF THE UPCOMING MALLS WILL BE LOCATED IN THE SOUTHERN REGION**

# Q1 2010 INDIA ORGANISED RETAIL MARKET

## Diagnosis & Outlook

Table 37  
Rentals in Operational Malls

Micro-market	Anchor rentals (Rs./sq/ft)			Vanilla rentals (Rs./sq/ft)		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Anna Salai	25	35	30	55	110	75
Mylapore	30	42	35	60	125	90
Amjinkarai	30	40	33	55	80	65

Source: Knight Frank Research

Close to 3.9 mn.sq.ft. of mall space has been deferred and 0.4 mn.sq.ft. of retail space has been withdrawn.

Thus, the supply-lag figures elucidate the negative impact that the slowdown has had on retail projects in the city.

## 4. Rental Profile

The economic slowdown in the country led to a real estate market correction in the city, impacting the rentals prevailing in the retail sector as well. The preferred mode of transaction in this segment has moved from leasing to revenue sharing. The negative effect of the downturn has been harder on malls than on highstreets with most retailers in malls pressing for renegotiating their contracts.

### Mall

Since there are only three operational malls in the city the decline in rental values post the downturn has been relatively lower as compared to malls in other cities. Unlike in most other metros where there are a considerable number of malls, the retailers in Chennai do not have many options when it comes to mall space in the city, thereby checking

the rate of rental correction in the market. However, as most of the retailers had been signed on long term contracts they are currently in the process of re-negotiations with the mall promoters. Since all the three malls are located in proximity to each other the major differentiating factors are intrinsically mall dependent. Mount Road has an average of Rs.75/sq.ft. per month for vanilla rentals and an average of Rs.30/sq.ft. per month for anchor tenants. For upcoming malls the rentals quoted in the market are generally higher by 10-30% than the value which is finally agreed upon. The only exceptions in this case are destination malls like Express Avenue where the anchor and vanilla rentals quoted by the promoters are almost 50-80% higher than those which are being quoted in the market.

It has been observed that there are variations in floor-to-floor rentals within a mall. The vanilla rentals on the ground floor at Mount Road are higher by 10-20% when compared to the first floor; the rentals reduce by 8-12% as we go higher. At RK Salai the vanilla rentals are higher by 10-30% on the ground floor as compared to the first floor and reduce by an average of 8-12% on the upper floors. The vanilla rentals at Nelson Manickam Road are higher by 10-15% on the ground floor when compared to the first floor and reduce by an average of 8-10% on the upper floors. The rental paid by anchor tenants in most parts of the city would vary from Rs.30-42/sq.ft. per month depending on the location of the mall, the developer's reputation and the brand which is entering the mall.

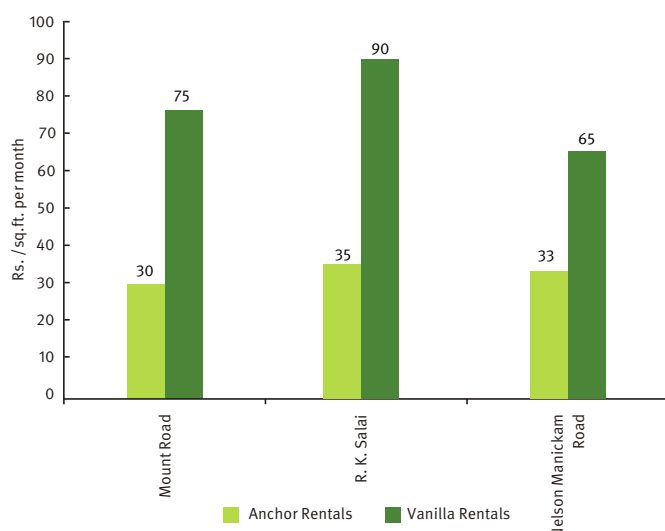
Currently Food courts are present in two out of the three malls in the city namely the Chennai Citi Centre and the Ampa Skywalk. Business at the food court at Ampa Skywalk is just picking up as it has become operational just a couple of months back while the food court at Chennai Citi Centre continues to draw visitors to the mall. The rental values in the food courts vary from Rs.40-60/sq.ft. per month.

### Highstreet

The highstreet markets continue to be the prime driver of the retail industry in the city. The three leading highstreets in Chennai include Nungambakkam High Road, T Nagar and 2nd Avenue Anna Nagar market. The highstreets in Chennai mostly comprise large-format standalone stores of local retailers like Nalli's, Saravana Stores, Kumaran, Pothys and many others. At present, contemporary retail destinations like Nungambakkam High Road and Anna Nagar are

Figure 52

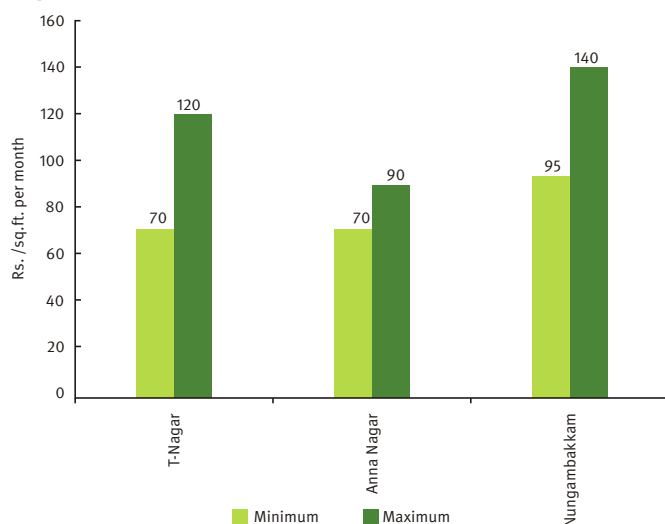
### Average Mall Rentals



Source: Knight Frank Research



Figure 53

**Highstreet Rentals**

Source: Knight Frank Research

witnessing strong retail activity in the city.

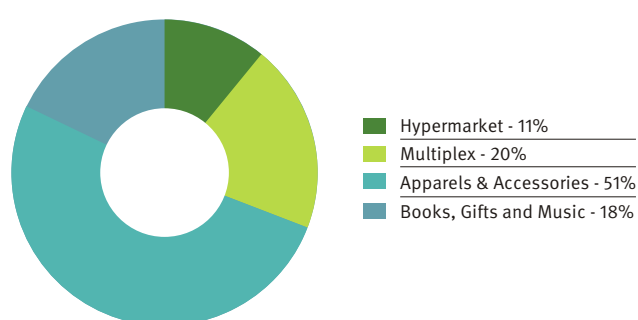
There is a healthy growth and expansion of highstreets in Chennai owing to higher disposable incomes and loyal customer base.

In the CBD locations prominent highstreets like Nungambakkam and T-Nagar have rentals between Rs.70-120/sq.ft. per month and Rs.95-120/sq.ft. per month respectively. Off-CBD highstreets like Anna Nagar have rental values of Rs.70-90/sq.ft. per month. With further development of peripheral locations like Velachery, GST Road and Rajiv Gandhi Salai, retail activity is expected to pick up in these locations in the next couple of years.

## 5. Product Category Distribution

During the course of our study, a number of facts regarding the tenants' profiles in a mall as well as in a highstreet came to light. The findings have been listed in the following sections.

Figure 54

**Product Category Distribution- Anchor Tenant**

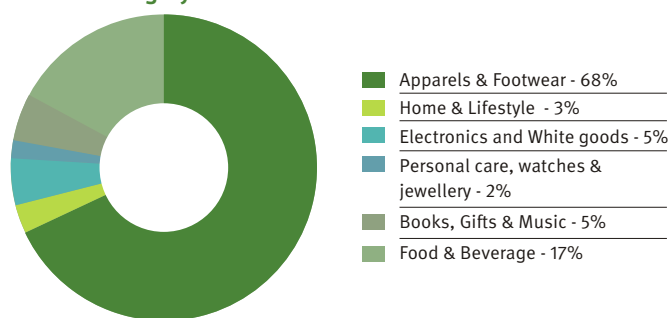
Source: Knight Frank Research

## Mall

The high occupancy rates in malls can be attributed to limited supply of organised retail space in the city. Most retailers who operate in city malls do not have many options and continue to occupy space in existing malls. This dearth of mall space is the reason behind Chennai Citi Center Mall at Mylapore currently operating at 100% occupancy. Spencers Plaza, though not being managed properly, shows a healthy occupancy of 95%. Ampa Mall in Amjinkarai has a current occupancy of 90% even though it has only recently become operational. This occupancy level is expected to increase even further in the coming months.

The study on malls' tenant profiling reveals that a majority of the anchor tenants taking up space in malls belong to the apparel and accessories category. Given the fact that these brands offer a wide range of products, they require larger spaces. They account for about 51% of the total retail stock built-up area. Brands like Westside and Lifestyle dominate the apparel anchor brands. Other popular categories of anchor tenants fall in the book, gifts and music category and the hypermarket segment, with a contribution of 18% and 11% respectively to the total retail stock. Prominent among them are Landmark (Bookstore) and Star Bazaar (hypermarket). The remaining anchor tenants are accounted for by multiplex operators like PVR and INOX, the prime drivers for footfalls in malls.

Figure 55

**Product Category Distribution- Vanilla Tenant**

Source: Knight Frank Research

For vanilla tenants it was observed that, similar to anchor tenants, the largest occupier of mall space belonged to apparels and footwear retail units. They account for about 68% of the total vanilla tenant space in existing malls. While these stores outnumber any other category of products present in a mall, the only other category amongst vanilla stores to have a significant presence is Food & Beverages. They contribute 17% to the total vanilla retail stock present in malls.

In present times, mall developers have realised the importance of including restaurants and coffee shops in the tenant mix to attract footfalls. Also, malls today are being promoted more as family entertainment destinations, providing a complete shopping experience.

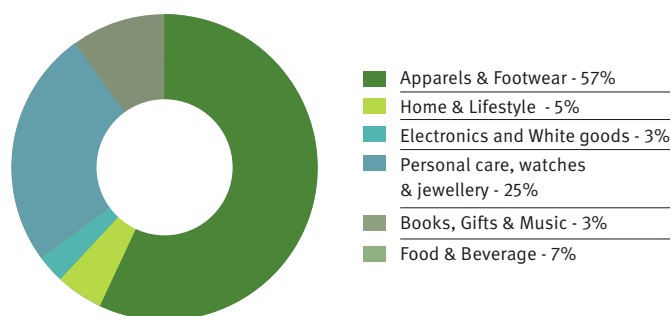


# Q1 2010 INDIA ORGANISED RETAIL MARKET

Diagnosis & Outlook

Figure 56

## Product Category Distribution- Highstreet



Source: Knight Frank Research

The remaining vanilla stores present in malls are more or less equitably divided into categories like Books, Gifts and Music, Electronics and White goods and Home & Lifestyle.

## Highstreet

Analysis on tenant profiling was carried out on select highstreet markets in the city as well. In Chennai, the study covered one key highstreet, viz. T-Nagar. But in case of the study on highstreets the tenant classification is based on a number of stores belonging to particular product categories, rather than on the store built-up area.

The study in T-Nagar reveals that apparels and footwear have the maximum number of retail outlets, to the tune of approximately 57% of the total number of stores on the highstreet. They are closely followed by stores belonging to the category of Jewellery,. About 25% of the total number of stores on the highstreet is occupied by this category. Food & Beverage outlets follow next with 7% of the highstreet market stores.

## 6. Mall: Operational Profile

With the onset of the economic slowdown, cost has been a major concern for mall developers and retailers alike. The study has tried to cover various costs involved from the perspective of a retailer as well as the average trading density and present the findings in following sections:

Table 38

### Rent as a percentage of Revenue

Micro-market	Rent as a percentage of Revenue	
	Vanilla (%)	Anchor (%)
Anna Salai	11	7
Mylapore	14	8
Amjinkarai	12	7

Source: Knight Frank Research

Rent as a percentage of revenue is an indicator of the portion of rent in the total revenue earned by the retailer. From table 38 it is evident that for vanilla tenants in the city, rent as percentage of revenue varies between 11-14%, whereas for anchor tenants it varies within 7-8%.

Table 39

### CAM Charges (on Saleable Area)

Micro-market	CAM charges (Rs/sq.ft. per month)	
	Vanilla	Anchor
Anna Salai	9	8
Mylapore	13	13
Amjinkarai	15	15

Source: Knight Frank Research

The retailers also have to pay Common Area Maintenance (CAM) charges besides the rentals, which essentially are a monthly variable expense payable by retail tenants for common areas used by all tenants. The mall developers usually determine each tenant's pro rata share of the common areas. For vanilla tenants, the CAM charges work out to be in the range of Rs.9 -15/sq.ft. per month, while anchor tenants have to pay CAM charges in the range of Rs.8-15/sq.ft. per month.

Table 40

### Average Trading Density in Malls (On Saleable Area)

Micro-market	Average Trading Density (Rs/sq.ft. per month)	
	Vanilla	Anchor
Anna Salai	750	575
Mylapore	835	658
Amjinkarai	792	617

Source: Knight Frank Research

The deciding factor for the future of a retail outlet is the revenue it generates. On carrying out a study of the revenue generated by retailers in different malls in the city, it was observed that the anchor tenants in Mylapore malls had the highest average trading density (ATD) of Rs.658/sq.ft. per month as opposed to Rs.617/sq.ft. per month and Rs.575/sq.ft. per month observed amongst anchor tenants in Amjinkarai and Anna Salai respectively. Among vanilla tenants, Mylapore again witnessed the highest ATD value of Rs.835/sq.ft. per month when compared to the other micro-markets. The mall location and design are factors which influence trading density of a particular mall.

## 7. Outlook

The organised retail market in Chennai is an emerging one. Although one of the first malls in the country Spencer Plaza remains fairly nascent in its development of organised retail space. The primary reason for the same has been the conventional consumer buying behaviour in the city.



A majority of the residents in the city fall under the middle income category and as retail consumers they believe in value based shopping. People in the city prefer looking for the best buy in terms of value, irrespective of whether the product is available in a mall or any other organised space. In other words, they lay more emphasis on a product's value, rather than convenience shopping which is what a mall strives to offer. This attitude had led to the stunted growth of malls in the city, post Spencer Plaza.

Chennai's foray into the IT/ITES sector in 2007 was late as compared to other prominent cities of the country, which was towards the end of the boom period. This foray into the IT/ITES sector had created an anticipation of success for mall formats fuelled by an increasing cosmopolitan populace. Due to this development, a majority of the working population of Chennai which had moved out of the city to work in the IT/ITES sector in other cities were expected to return to the city. These returning migrants were expected to increase the demand for malls in the city. Consequently, a considerable number of mall projects were launched during the period 2006 to 2008 which were later stalled, deferred or withdrawn due to the economic downturn. Currently a lot of these projects have been revived due to better stability in the market.

With approximately 7.49 mn.sq.ft. of organised retail space expected to come up during the next three years there is a possibility that there could be an oversupply of mall space in the market and with the residents of the city still not completely in acceptance of mall culture, investing in a mall can be considered a risk. In spite of having only three existing malls, the mall retail space in the city has not been doing great business with the exception of Food Courts and Multiplexes. This is an indicator which entails caution when looking at developing a mall format. On the other hand, most retail developers believe that in the next couple of years the market for organised retail space in the city would grow and with mall space currently almost non-existent in various micro-markets in the city it presents a great opportunity for first mover entity in the respective micro-markets.

With residential development currently focused on the southern and western parts of the city and the lack of organised retail space in these locations, there are immense prospects for mall development in micro-markets within these locations. Micro-markets like Rajiv Gandhi Salai in the south and Poonamallee High Road in the west are expected to provide demand for forthcoming retail space. The development of infrastructure initiatives like development of the IT corridor, MRTS stations, road development and development of the Outer Ring Road is expected to increase the number of people migrating towards the southern and the western parts of the city. This is expected to fuel demand for mall space in these locations in the next couple of years. Once the proposed malls in the city become operational it is expected that they will provide greater competition to existing malls, by way of making competitive rental offerings, which could result in a decline in

rental values. The upcoming supply is also expected to open up opportunities for the retailer who would have more retail space options to choose from and can use that as a bargaining tool while deciding the lease values.

Mall rental contracts have undergone a significant change post the economic downturn. Lease models have been replaced by revenue sharing models which are based on a percentage of actual revenues earned by the retailer. A number of retailers over the past year have renegotiated their rental values to avoid paying unreasonable amounts and to settle on rental values suited to reflect the current economic market. Most retail developers have had to take a hit on their earnings to sustain operations. Meanwhile, multiplexes and food courts continue to be the revenue drivers in existing malls. This trend is expected to continue for the next couple of years.

The year 2010 is expected to be a watershed year with three malls which are expected to be operational in the city. Destination malls like the eagerly awaited Express Mall is generating a lot of interest in the city. Retail space in this mall has been transacted at astronomical lease values. On completion by the end of the year it would be the biggest mall in the city. Developers and retailers in the market will be keeping tabs on the performance of this mall as an indicator of retail development in the city. For the success of organised retail market in the city, the consumer psyche has to undergo a change in the spending behaviour and attitude, a process which will take time. Hence it is prudent for the markets to give sufficient time for malls to develop and mature in the city.

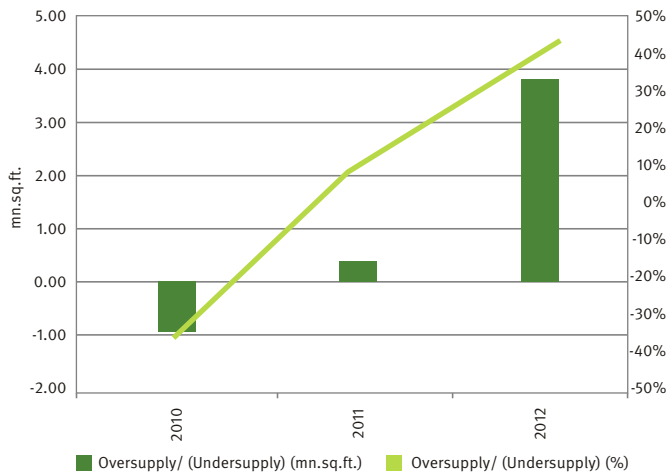
WITH A LARGE QUANTUM OF SUPPLY IN THE PIPELINE, THERE IS A POSSIBILITY THAT THERE COULD BE AN OVERSUPPLY OF MALL SPACE IN THE MARKET AND INVESTING IN A MALL CAN BE CONSIDERED A RISK

# Q1 2010 INDIA ORGANISED RETAIL MARKET

Diagnosis & Outlook

Figure 57

## Chennai: Retail Real Estate Scenario



Source: Knight Frank Research

As was the case with the other major cities in India, in order to estimate whether Chennai will have an oversupply or undersupply of retail space, Knight Frank Research built a Retail Demand Supply Forecast Model. Through this model we calculated what the organised Retail Market (ORM) would be for Chennai during the next three years (2010-2012) while also predicting the Real Estate Retail Potential (RERP) during the same period. Our calculations showed that the ORM for Chennai would double from Rs. 24 billion in 2009 to Rs. 48 billion in 2012. However, the RERP would grow by nearly 9 times, from Rs. 10 billion in 2009 to Rs. 88 billion in 2012 since we have forecasted a supply influx of 7.49 mn.sq.ft. between 2010 and 2012.

In 2010, we forecasted the ORM to be growing at a more rapid pace than the RERP. This would create an undersupply of 0.93 mn.sq.ft. in Chennai. However, the next two years are very different with the RERP growing far quicker than the ORM. This creates an oversupply, rising from 8% of the organised retail stock in 2010, to 43% in 2012. At 43% oversupply or 3.77 mn.sq.ft., this can be considered high and this constant supply of retail space over the years is likely to put a downward pressure on the price of retail properties across the city of Chennai.

OUR CALCULATIONS SHOWED THAT THE ORM FOR CHENNAI WOULD DOUBLE FROM RS. 24 BILLION IN 2009 TO RS. 48 BILLION IN 2012. HOWEVER, THE RERP WOULD GROW FROM RS. 10 BILLION IN 2009 TO RS. 88 BILLION IN 2012. THIS GROWTH OF THE RERP WOULD CREATE AN OVERSUPPLY OF RETAIL SPACE OF 43% IN 2012, OR 3.77 MN.SQ.FT.



# KOLKATA

## 1. Market Review

Kolkata, the erstwhile capital city of British India and gateway to the eastern part of the country, has always been on the radar of national and foreign retailers. The city's conflicting nature of affluence coupled with restrictive government policies had always intrigued retailers on their strategy to enter its market. Of late, positive policy changes at the helm, in order to attract investments to the region, have brought about a sea change in Kolkata's economic scenario. Consequently, the early 2000s saw the advent of a number of real estate developers who, encouraged by the government's proactive stance, launched their signature office and residential projects, thereby bringing the city into the limelight. Kolkata, at present, is considered to be one of the prime contenders of IT space, along with cities like Hyderabad, Chennai and Pune.

Hectic real estate development in the city since 2005-06 lent confidence to large retail players and in the following years, Kolkata witnessed the rise of organised retail. The first mall in the city was launched in 2003 and today it boasts of around 8 large format malls. The organised retail market in Kolkata, however, is still in a nascent stage. It faltered considerably during the economic recession in the country. The year 2009 was particularly bad for the industry with several cancellations of booked spaces and deferment of sanctioned projects.

The expansion plans of retailers in Kolkata have gone down drastically compared to the last two-three years when retailers were queuing up to enter the city's market. Developers, who had launched their mall projects with high aspirations, had to put them on hold due to the lack of interest shown by retailers as well as lack of funding across the board. This can also be attributed to other factors like rise in construction cost, lack of consumer demand and acute catchment problem. As with retailers, who are wary of what lies ahead, the developers have adopted a 'wait-and-watch' strategy as well. In cases where the developers have purchased land at a higher price, they are willing to keep the construction on hold and proceed when the situation becomes favourable.

Several malls in Kolkata are presently being converted into office spaces. Developers are also thinking of reducing their retail components and introducing more commercially viable residential and office components.

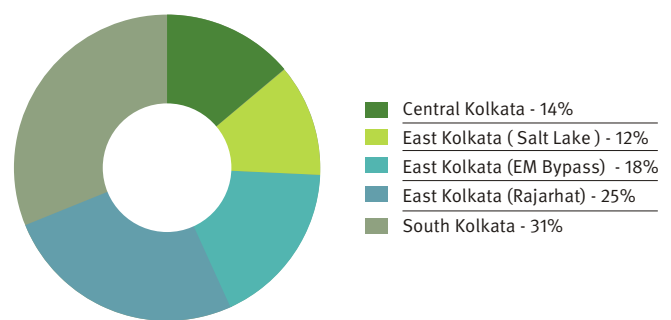
Amongst the malls which underwent conversion of retail space, mention can be made of 'Haute Street' on the Eastern Metropolitan Bypass which was turned into commercial space for office lease last year.

According to industry sources, most of the distressed retailers in Kolkata are the ones with large retail area. The hardest hit are retailers who had set up shop outside central Kolkata owing to lower rentals prevailing there. However, due to recession, sales and footfalls dipped drastically, thereby extending the break-even time for those retailers by minimum two years. Although hypermarket stores like Big Bazaar have been immune to the meltdown, impulse purchase has dropped considerably, reducing the revenue margin.

At present, the retail market situation in the city is undoubtedly under stagnation, but the downward movement has become minimal during the past few months. This has given rise to optimism amongst retailers and developers alike.

Figure 58

### Distribution of retail stock



Total Area 3.37 mn.sq.ft.

Source: Knight Frank Research

# Q1 2010 INDIA ORGANISED RETAIL MARKET

## Diagnosis & Outlook

### 2. Operational Mall Analysis

Kolkata currently has an inventory of approximately 3.4 mn.sq.ft. of mall space in the city. While retail markets are spread across the city in several pockets, the major large format malls are located primarily in the eastern region and others in central and south Kolkata. In this report, we have endeavoured to cover key malls in the city, hence references shall be made only towards those malls taken into account. Table 41 and Figure 58 depict the presence and distribution of various mall spaces in different zones of the city.

Table 41

#### Zonal Classification

Zone	Locations
Central Kolkata	Park Street, Camac Street, Elgin Road
East Kolkata	Rajarhat, Salt Lake, eastern parts of EM Bypass
South Kolkata	Gariahat, Rashbehari Avenue, PA Shah Road, southern parts of EM Bypass

Source: Knight Frank Research

#### Central Kolkata

The central locations of the city have traditionally been upmarket pockets where retail developments have flourished, along with F&B outlets. A number of national and international brands as well as retail stores have their presence in this micro-market, mostly along the two major highstreets of Park Street and Camac Street. Besides, Forum, the first mall in the city is located here as well. The 0.2 mn.sq.ft. mall by Forum Projects, located at Elgin Road, is also one of the few malls whose rentals reportedly were not much adversely impacted by the downturn. This can be attributed primarily to its location advantage as central Kolkata forms the entertainment and leisure hub in the region. Another high-profile retail development, Avani Heights, is also located in this micro-market. At present, with a mall space of around 0.47 mn.sq.ft., central Kolkata contributes towards 14% of the total existing mall space in the city. This zone also has a lower vacancy rate of 7% which denotes the strength of the market to withstand the recession.

#### East Kolkata (Salt Lake)

The eastern part of Kolkata covering the large expanse of Salt Lake has emerged as one of the prime retail catchments in the region. After Forum, City Centre 1 was the second mall to be launched in the city in 2004. Designed by the renowned architect Charles Correa and located in Sector I, the mall has become one of the city's landmarks with its unique design of combining office and residential complex along with retail space. This integrated retail project, a joint venture between Bengal Ambuja and Kolkata Metropolitan Development Authority, admeasures a built-up area of around 0.4 mn.sq.ft. of retail space and



is responsible for 12% of the total retail stock comprising key malls in the city. The vacancy rate is also fairly low in the mall, to the tune of 7%, which reflects the fact that the recession did not affect the mall's tenants.

#### East Kolkata (EM Bypass)

The Eastern Metropolitan Bypass (EM Bypass), connecting the east to the southern parts of the city, has emerged as an important commercial stretch. The residential catchment on both sides of the road makes the region an ideal location to launch retail developments. Some of the recent retail projects to have come up on this stretch include the Metropolis by Calcutta Metropolitan Group and Mani Square by the Mani Group, altogether contributing around 18% to the total retail stock, which translates to roughly 0.6 mn.sq.ft. of built-up space. Retailers had moved into these malls with the assumption that the residential catchment would lead to increased revenues, thereby explaining the vacancy rate of 6% in this micro-market, one of the lowest amongst the malls covered in the study.

KOLKATA CURRENTLY HAS  
AN INVENTORY OF  
APPROX. 3.4 MN.SQ.FT., OF  
WHICH THE MAJOR LARGE  
FORMAT MALLS ARE  
LOCATED PRIMARILY IN  
THE EASTERN AND  
SOUTHERN PARTS





## Kolkata



● UPCOMING	● EXISTING
1. Forum Howrah	1. City Centre
2. Forum Courtyard	2. Mani Square
3. Forum II	3. Forum
4. Varnaparichay	4. 22 Camac Street
5. Diamond Heritage Mall	5. Avani Galleria
6. Lake Town Mall	6. Gariahat Mall
7. Sisirkunja	7. South City Mall
	8. Metropolis

However, contrary to the general perception that retail market would thrive in the region, both these malls have not been able to sustain consumer interest.

The much-promoted Mani Square, which became operational in 2009, houses prominent anchor tenants like Spencers, Westside and McDonalds within its area of 0.4 mn.sq.ft. of retail space, along with multiplex operator Cinemax present on two floors. Meanwhile, Metropolis, the other mall on EM Bypass, has been operational since 2004. The 0.2mn.sq.ft. mall has anchor tenants like Big Bazaar and Fame Cinemas. Significantly, despite the presence of multiplexes, generally known as crowd-pullers, in both the malls, it has been observed that they do not have sufficient conversion of footfalls and the revenue generated by the brands have been expectedly low.

### East Kolkata (Rajarhat)

Rajarhat has been the cynosure of all since the entry of national and foreign real estate players who took up large land parcels there. While

a number of large format mall developments had been announced in the region during 2005-2007, none of them could be completed on time. This can be attributed to the fact that the infrastructure in Rajarhat was not ready enough for retail to take off. As a result most of the developers took their time in completing the mall projects.

At present, there is only one mall operational in Rajarhat. The success of City Centre 1 at Salt Lake led the developers to come up with City Centre 2 in this micro-market. The City Centre 2 mall, located in Action Area II of Rajarhat rules out competition from the former as it is located 15 km. north of Salt Lake. Due to its strategic location, it is expected to cater to a large segment of people living in Ultadanga, Lake Town, Baguihati, Dum Dum, Jessore Road, Barasat and Birati. Residents in these locations at present do not have access to a proper mall and need to travel a greater distance to arrive at a quality family entertainment destination. The 0.4 mn.sq.ft. of gross leasable area of the City Centre 2 Mall has been designed to house approximately 425 tenants. The two major anchor stores of the mall include Pantaloons and Food Bazar covering an area of about 55,000 sq.ft., while other major tenants include KFC, Crossword, Biba, Baskin Robbins and Adidas, amongst others. The mall also houses a four screen Inox multiplex. With two basement floors dedicated to car parking, the mall boasts of accommodating 1,000 cars at a time.

# Q1 2010 INDIA ORGANISED RETAIL MARKET

## Diagnosis & Outlook

Table 42  
Mall Occupancy

Micro-market	Mall Occupancy (%)
Central Kolkata	7%
East Kolkata (Salt Lake)	7%
East Kolkata (EM Bypass)	6%
East Kolkata (Rajarhat)	50%*
South Kolkata	3%

Source: Knight Frank Research

\*High vacancy figures are due to the recent launch of the mall without sufficient number of tenants

While City Centre 2 is the region's first operational mall, Rajarhat's first operational large format retail store is Home Town in Action Area I. Covering an area of almost 0.2 mn.sq.ft., Home Town, previously known as Block By Block, has been promoted as a one-stop shop for furniture, furnishing, kitchen fittings, home décor items, home electrical fittings, consumer durables and electronic appliances.

Currently, Rajarhat has an operational retail space of 0.85 mn.sq.ft. of retail space, which accounts for 25% of the total existing retail stock in the city. The vacancy rate, however, has been substantially high in the region, owing to the fact that City Centre 2 has started its operations only recently with the economy still not having recovered fully. Retailers are wary about taking up space in malls, given the stagnant market scenario, as a consequence of which vacancy in the mall has been recorded at around 50%. Business in City Centre 2 is expected to pick up with people moving into the high-profile residential projects like Ujjwala by Bengal Ambuja, Highland Woods by Bengal United Credit Belany, to name a few.

### South Kolkata

South Kolkata has typically been the preferred dwelling of the mid-income and upper mid-income segment of the society, besides a good number of HNI residents. Several unorganised retail markets are located here in order to cater to the residents' needs. The Gariahat market is one of the prominent highstreets in the region, primarily housing local brands. In recent years, Gariahat witnessed the setting up of several organised retail stores, notable amongst them being the Gariahat Mall with Big Bazaar as its anchor tenant, and also a Spencer's stand-alone retail store.

The face of South Kolkata's retail market changed with the launch of the South City Mall in 2008. The mall, part of the 35-storied South City project, is touted to be the largest operational mall in the eastern part of the country with an area of over 1 mn.sq.ft., which has a gross leasable area of around 0.7 mn.sq.ft. The mall has an impressive anchor tenant list of Shoppers Stop, Pantaloons and Spencers, with a slew of other international brands such as Marks & Spencer, Lladro and Hush Puppies. Besides these big retail brands, the mall also

boasts of a number of F&B outlets. Approximately 75,000 sq.ft. is occupied by F&B including several specialty restaurants and food counters. Currently, this category contributes around 30-35% of the total revenue generated in the mall.

However, last year's economic recession took its toll on the mall. As a result two international retailers Straps and children's wear brand Kanz shut their operations in India and moved out of South City mall. Also, the mall witnessed a considerable decline in footfalls. While it saw footfalls of around 260,000 people per week, they declined to 140,000 during end-2009. Nevertheless, riding on overall improvement in consumer sentiment and also with the economy showing signs of revival, the mall expects around 25-30% growth in sales during 2010. At present the southern retail market comprises 31% of the total retail stock in the city, with retail space of 1.05 mn.sq.ft. and the lowest vacancy level of 3% in the city's retail market.

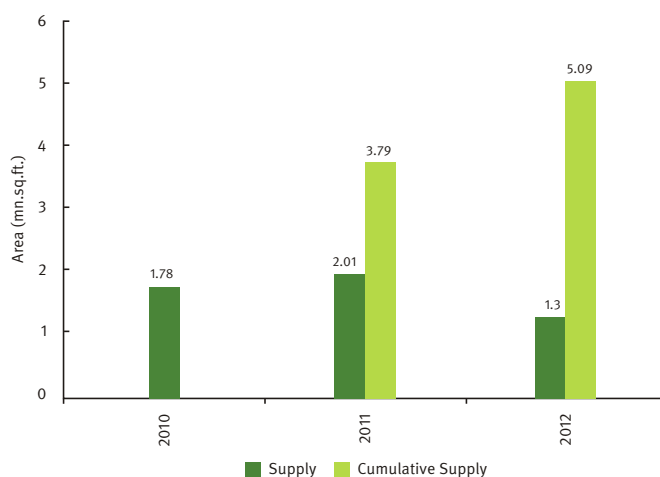
## 3. Upcoming Supply Analysis

Kolkata is set to witness a supply infusion of around 5.09 mn.sq.ft. of fresh retail space by the end of 2012. This considerable amount of retail space in the pipeline may be largely attributed towards the cumulative space blocked due to delay in completion timelines. A large amount of the new supply would actually be spill-over spaces from the previous years, some of which were expected to be completed way back in 2006. Of the estimated supply around 1.78 mn.sq.ft. is expected to be delivered in 2010, while approximately 2.01 mn.sq.ft. and 3.1 mn.sq.ft. would enter the market in the next two years.

As per the supply schedule, eastern Kolkata is slated to see maximum supply infusion. The region would account for around 39% of the total supply expected by the end of 2012, of which Rajarhat shall account for almost 0.4 mn.sq.ft.

Figure 59

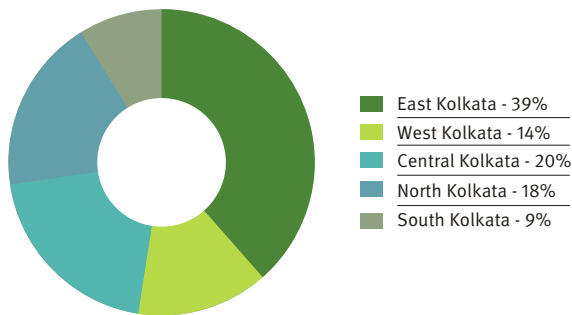
### Year-wise distribution of supply



Source: Knight Frank Research



Figure 60

**Distribution of upcoming supply (2010-12)**

Total Area 5.09 mn.sq.ft.

Source: Knight Frank Research

The primary reason behind most of the big projects in Rajarhat running behind schedule is the yet-to-be-developed infrastructure there.

Majority of these projects have been restructured as office cum retail spaces. Retail in the area was expected to do well due to its residential catchment as well as its proximity to the IT hub of Salt Lake Sector V. However it has been observed that presently the space offered by commercial projects, with retail components on the ground and first floor, is mostly booked by retailers for food courts, stationery and computer peripheral shops, book stores and chemists, as per the requirements of office-goers. This trend, therefore, states that while food courts and related amenities find acceptance therein, the concept of clubbing retail space for apparels and other brands may not go well with office space in Rajarhat.

Although Rajarhat is gradually becoming habitable, the growth of its real estate development has been dampened by the economic meltdown. While even two years back work was underway for at least seven malls, each with an average retail area of 0.2-0.4 mn.sq.ft.,

**KOLKATA WILL WITNESS A SUPPLY OF APPROX. 5.1 MN.SQ.FT. OF RETAIL SPACE BY 2012. THIS LARGE QUANTUM IS DUE TO THE SPILL-OVER OF SEVERAL DELAYED PROJECTS IN THE PAST.**

many of them now face an uncertain future. Out of the seven malls projected in Action Area I, II and III, today the only active project is City Centre 2.

In fact, the economic slowdown has forced players like DLF to put their projects on hold. DLF's proposed 70,000 sq.ft. retail space planned with the IT Park has already been converted into a mixed use property. Another mall located in the region, Terminus, spread over about 0.2 mn.sq.ft. has become a commercial space as well. One of the key retail projects, which was touted to become a landmark retail development in the city, by Bengal Peerless is also struggling to retain its tenants, while a few prospective tenants have already called off deals with the mall.

On the other hand, the traditional stronghold of retail, central Kolkata, is scheduled to witness the second highest supply infusion of the total new supply by end-2012. The region would contribute over 1 mn.sq.ft. of retail space in the forthcoming two-three years, the key upcoming project being the Varnaparichay Mall by Bengal Shelter. This micro-market will also witness completion of the Forum Courtyard Project by the Forum Group on Elgin Road in the current year.

A number of mall projects have also been launched in the northern part of the city, contributing towards 18% of the total retail space supply, translating to around 0.93 mn.sq.ft. of retail space. Amongst them, mention can be made of two retail developments, viz. Sisirkunja (0.23 mn.sq.ft.) by Bengal Shelter and Diamond Heritage Mall (0.2 mn.sq.ft.) by the Diamond Group, which are expected to be operational by the end of 2010.

West Kolkata and South Kolkata shall account for around 14% and 9% of the total retail supply respectively. While West Kolkata has two projects by the Forum Group and Avani Estates underway, both adding upto about 0.19 mn.sq.ft, south Kolkata expects to see another new retail project this year the 0.25 mn.sq.ft. Lake Mall at Lake Market.

Although the supply figures may portend a picture of robust retail growth in the city, the situation however, is not all favourable. Table 43 shows the quantum of supply that failed to enter the market year-on-year since 2006.

Table 43  
Supply Lag in Kolkata

Year	Anticipated Supply (mn.sq.ft.)	Actual Supply (mn.sq.ft.)	Supply Withdrawn (mn.sq.ft.)	Supply Stalled/Deferred (mn.sq.ft.)
2006	2.29	0.05	0	2.24
2007	1.19	0.37	0	0.55
2008	4.65	2.03	0	2.67
2009	2.9	1.02	0.67	2.71

Source: Knight Frank Research

# Q1 2010 INDIA ORGANISED RETAIL MARKET

## Diagnosis & Outlook

As discussed previously, the large quantum of supply in the pipeline can be attributed mainly to the significant back log of supply. While the reasons range from lack of funds to undeveloped infrastructure the fact remains that on-time delivery of retail space has always been a matter of concern. With the onslaught of the economic downturn, the scenario became more evident and the years 2008 and 2009 saw larger amount of supply deferred or stalled. As a matter of fact, a number of high-profile retail projects were taken off the market and re-configured. Note can be made of Firangee Bazaar, a retail project scheduled to come up on EM Bypass, which has been converted to office space. Another project, Space Mall by the Space Group has also been converted to residential use. Not surprisingly, the year 2009 saw the withdrawal of approximately 0.67 mn.sq.ft. of retail space from the market.

## 4. Rental Profile

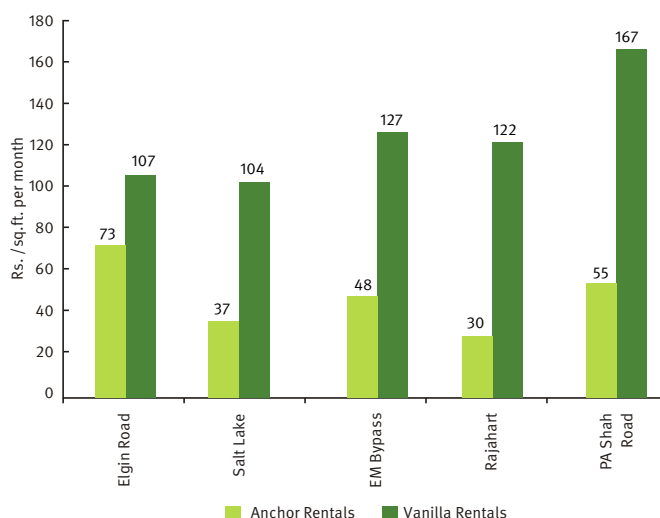
Kolkata has remained a relatively stable market. Retail rentals dipped by around 10% during the period December 2008 to December 2009, compared to the national average of 30-40%. Even with the nationwide correction in retail rentals, Kolkata mall developers were not adversely affected. However, rentals of spaces that had already been taken up underwent re-negotiations to some extent. Also, different malls had different effects regarding rental correction, for instance, a key south Kolkata mall reportedly rolled back rentals by 10-25%, applicable to its smaller non-anchor stores for a temporary period to help them tide over the troubled times.

### Mall

Regarding mall rentals, it has been observed that the older malls located on Elgin Road and Salt Lake have similar rental values for vanilla tenants and range between Rs.104-107/sq.ft. per month. Newer malls, that came up after 2007, have rentals upwards of Rs.120/sq.ft. per month. This phenomenon can be attributed to the fact that transacted values when the older malls were launched in 2003-04, were much lower than the rentals quoted by newer malls. The booming real estate prices during the period 2006-08 ensured that malls

Figure 61

### Average Mall Rentals



Source: Knight Frank Research

launched during this time frame had higher rental values. On the other hand, malls in other parts of the city have almost similar rental values for their anchor tenants, within the range of Rs.30-55/sq.ft. per month. Rentals for anchor tenants, occupying larger spaces, have been lower in these malls primarily due to their suburban locations where land cost is relatively lesser than the central locations.

Besides, during the course of the study, similarities and variations were noted in the case of floor-to-floor rentals as well. While malls in central Kolkata and the ones in Salt Lake and Rajarhat charge around 40-45% higher rentals on the ground floor for vanilla tenants over first floor rentals, the malls on EM Bypass and south Kolkata have ground floor rentals just 15% higher than the first floor values.

At present, most malls have the concept of a food court within their premises to attract more footfalls. In Kolkata, while both the malls at Salt Lake and Rajarhat have similar rentals for their food court, in the range of Rs.108-110/sq.ft. per month, other malls on EM Bypass and in south Kolkata charge rentals within the range of Rs.130-132/sq.ft. per month.

Table 44  
Rentals in Operational Malls

Micro-market	Anchor rentals (Rs./sq.ft. per month)			Vanilla rentals (Rs./sq.ft. per month)		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Central Kolkata	65	75	73	85	170	107
East Kolkata (Salt Lake)	33	40	37	41	200	104
East Kolkata (EM Bypass)	27	65	48	55	213	127
East Kolkata (Rajarhat)	27	35	30	110	190	122
South Kolkata	40	60	55	140	210	167

Source: Knight Frank Research



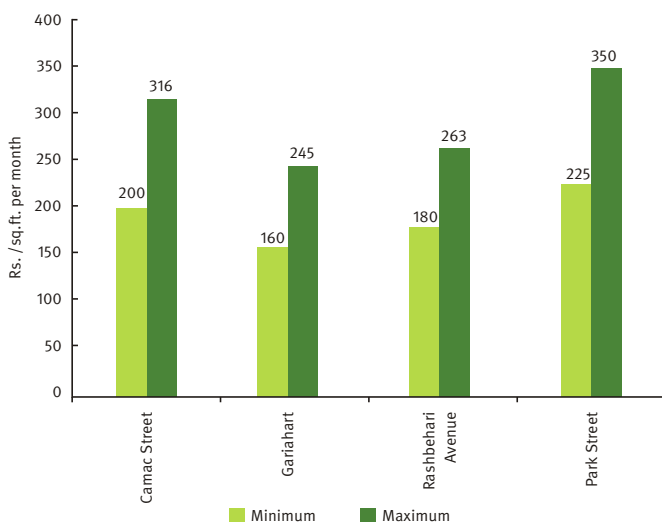
It should also be noted that while food courts in the malls at Salt Lake and Rajarhat have smaller built-up areas of around 11,000-14,000 sq.ft., the other malls on EM Bypass and in south Kolkata have food courts with larger areas of 20,000-35,000 sq.ft. Of late, due to the high rentals payable and low revenue generated by retailers, the concept of revenue-sharing has emerged. However, in Kolkata, barring a few retailer-friendly developers, not many were interested in getting into revenue sharing models where the fixed operating cost is low for the retailer.

## Highstreet

On the highstreet front, rental correction to the tune of 8-12% was seen mainly in developing areas such as Salt Lake and central locations of Park Street, Camac Street and Elgin Road. Rental values had appreciated at a faster pace in these markets, as a result of which there is now a deadlock in transaction in these locations.

Figure 62

### Highstreet Rentals



Source: Knight Frank Research

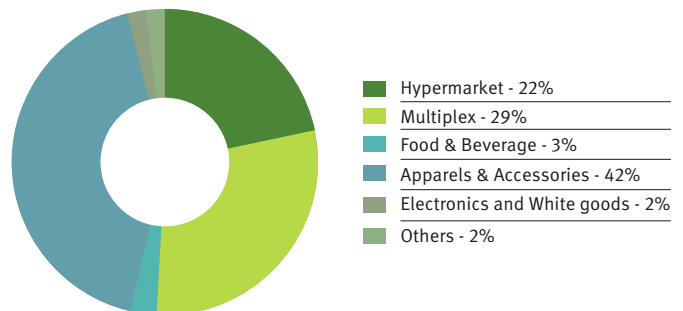
During last year, several stores have reportedly seen closures in these markets. For instance, the 3,500 sq.ft. flagship Adidas lifestyle store on Camac Street that had opened less than two years ago, shut shop on grounds of 'irrationally high' rentals. At present, prime highstreets like Park Street and Camac Street have rentals in the range of Rs.200-350/sq.ft. per month, while the southern highstreets of Gariahat and Rashbehari Avenue has rentals in the range of Rs.160-260/sq.ft. per month.

## 5. Product Category Distribution

Our study revealed a number of facts related to the tenants' profiles in a mall as well as in a highstreet. The findings have been listed in the following sections.

Figure 63

### Product Category Distribution - Anchor Tenant



Source: Knight Frank Research

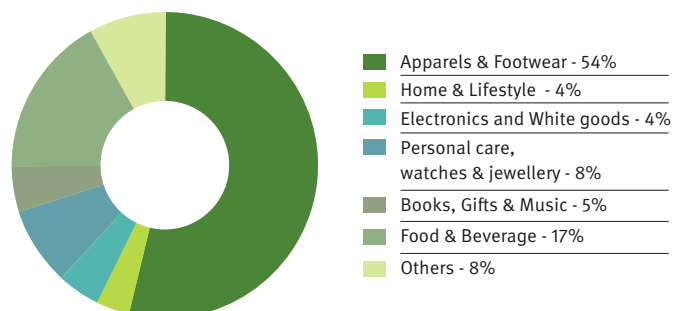
## Mall

Malls in Kolkata, at present, have a healthy occupancy rate. Majority of the malls have occupancies over 90% which seems commendable after the recent economic recession. The only mall, which has prove to be an exception, is the newly operational City Centre 2 in Rajarhat. Currently, the occupancy here is less than its capacity. In contrast, the South Kolkata malls are almost fully occupied with 97% occupancy, which can be primarily attributed to the good connectivity the region enjoys with rest of Kolkata, as well as better infrastructure facilities and a good residential catchment comprising mid and high income population. This contradictory picture between Rajarhat and South Kolkata malls emphasizes the point that physical and social infrastructure is very important for a mall to attract tenants.

The study on malls' tenant profiling reveals that the anchor tenants taking up most space in malls belong to brands selling Apparels and Accessories. Given the fact that these brands offer a wide range of products, they require larger spaces. Consequently, they account for about 42% of the total retail stock built-up area. Not surprisingly, after Apparels & Accessories, multiplexes absorb maximum space in malls as anchor tenants.

Figure 64

### Product Category Distribution - Vanilla Tenant



Source: Knight Frank Research



# Q1 2010 INDIA ORGANISED RETAIL MARKET

## Diagnosis & Outlook

Generally, multiplexes occupy more than one floor and are spread across the entire floor area. They form 29% of the total retail stock, followed closely at 22% by hypermarkets, which of late have become an important part of a mall. In most successful malls, credit is given to hypermarkets for pulling in the crowd, mostly from the mid-income category, the segment driving the economy today. The remaining anchor tenant area is accounted for by F&B, Electronics & White goods and other stores.

A similar analysis was done on the vanilla tenants' profiles as well.

It was observed that, similar to anchor tenants, the largest quantum of mall space occupied by vanilla tenants belonged to stores selling Apparel and Footwear. They accounted for about 54% of the total vanilla tenant occupied area in the existing malls. While these stores far outnumber any other category of products present in a mall, the only other category to follow it is the F&B, which covers around 17% of the total retail stock. In present times, mall developers have realised the importance of including restaurants and coffee shops in the tenant mix to attract footfalls. Also, malls today are being promoted more as family entertainment destinations, providing a complete shopping experience. Hence, F&B ranks amongst the top space occupiers in a mall. Other stores offering products related to Home & Lifestyle, Personal care, Electronics, etc., occupy space almost in an equitable ratio.

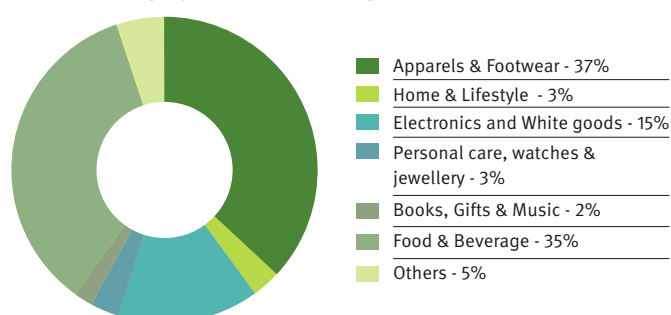
## Highstreet

Analysis on tenant profiling was carried out on the highstreet front as well. The study covered two key highstreets of the city Park Street and Camac Street. However, in case of highstreets, the study entailed only the product categorization of stores and not the area covered, as done in case of the malls.

It is evident from the study that, similar to malls where Apparel and Footwear occupy maximum space, highstreets in Kolkata have large number of stores belonging to the same category as well. On an average, around 37% of the stores along Park Street and Camac Street

Figure 65

### Product Category Distribution - Highstreet



Source: Knight Frank Research

sell apparel, footwear and other related accessories. They are closely followed by F&B outlets, which account for 35% of the stores in select highstreets. Hence it can be, rightly surmised that the retail sector primarily thrives on apparel and footwear and the F&B outlets greatly aid in pulling crowds to that end. The third product category to have the maximum number of stores on the two highstreets is electronics and white goods. This category contributes towards 15% of the total number of retail stores in the highstreets and is followed by other product categories with minimal presence.

## 6. Mall: Operational Profile

With the onset of the economic slowdown, cost has been a major concern for mall developers and retailers alike. The study has tried to cover various costs involved from the perspective of a retailer and presents findings in the following sections.

Table 45

### Rent as a percentage of Revenue

Micro-market	Rent as a percentage of Revenue	
	Vanilla (%)	Anchor (%)
Central Kolkata	14	7
East Kolkata (Salt Lake)	12	8
East Kolkata (EM Bypass)	17	13
East Kolkata (Rajarhat)	29*	8
South Kolkata	16	8

Source: Knight Frank Research

\*High figures are due to the recent launch of the mall without sufficient number of tenants

While rent acts as revenue for the mall developer, the same becomes a cost for the retailer leasing the mall space. As is evident in the Table 46 showing the rent to revenue percentage, vanilla tenants in a mall have average rental values ranging between 12-17% of the total revenue generated. The only outlier here is the City Centre 2 mall at Rajarhat, that has not yet generated much business owing to its recently-operational status. On the other hand, anchor tenants, who enjoy the benefit of occupying larger spaces at lower rentals as compared to vanilla tenants, have a rent to revenue ratio in the range of 7-13%.

The retailers also have to pay Common Area Maintenance (CAM) charges besides the rentals, which essentially is a monthly variable expense payable by retail tenants for the common areas used by all tenants (such as the lobby, elevators, restrooms or parking lots). The mall developers usually determine each tenant's pro rata share of common areas. For vanilla tenants, the CAM charges work out to Rs.15-17/sq.ft. per month, while anchor tenants have to pay CAM charges in the range of Rs.7-11/sq.ft. per month.



Table 46

**CAM Charges (On Saleable Area)**

Micro-market	CAM charges (Rs/sq.ft. per month)	
	Vanilla	Anchor
Central Kolkata	16	10
East Kolkata (Salt Lake)	17	11
East Kolkata (EM Bypass)	16	7
East Kolkata (Rajarhat)	15	11
South Kolkata	16	8

Source: Knight Frank Research

The most important aspect of a retail outlet is the revenue it generates. On carrying out a study of the revenue generated by retailers in various malls, it was observed that the anchor tenants in central Kolkata malls had the highest Average Trading Density (ATD) of Rs.563/sq.ft. per month. The second highest ATD of Rs.526/sq.ft. per month was achieved by South Kolkata malls. The residential catchment in the central and southern part of the city can be considered as positive factors working towards the high ATD.

Table 47

**Average Trading Density in Malls (On Saleable Area)**

Micro-market	Average Trading Density in Malls (Rs/sq.ft. per month)	
	Vanilla	Anchor
Central Kolkata	754	563
East Kolkata (Salt Lake)	784	458
East Kolkata (EM Bypass)	784	400
East Kolkata (Rajarhat)	416*	375*
South Kolkata	782	526

Source: Knight Frank Research

\*Low figures are due to the recent launch of the mall without sufficient number of tenants

## 6. Outlook

The Kolkata organised retail market is an emerging one. The city has not yet attained maturity regarding its retail sector. Meanwhile, the industry seems to have broadened its outlook post the economic upheavals. At present, the success and failure of different mall formats in the city are being closely monitored by the players therein. Regarding modern retail, mall developers and retailers alike have realised that business plans need to be re-drawn on the basis of varying levels of acceptability by consumers in different micro-markets in the city. Thus, business models will have to be structured keeping in mind the consumers' needs, preferences and adaptation. Also, retailers and developers should realise that every city has its own peculiarities, hence they should take care that they do not replicate a common business model or plan on the Kolkata retail market. Not only are there differences in city-to-city dynamics, but there are variations in

micromarket-to-micro-market characteristics as well. A proper business plan will lead to alignment of the retailer's expansion plans and also correction in some of the past decisions. The mall developers need to work towards providing the retailer with a congenial rental model so as to enable the retailer to achieve maximum productivity in its operations. As a means to that end, revenue-sharing models may also be looked into.

With the quantum of retail supply lined up to enter the Kolkata retail market in the forthcoming two years, the risk element of the developers will increase. To sustain and support the planned supply, the dynamics of how the market can grow should be studied. This is because, till the time the market witnesses growth, it will be difficult to absorb the new supply underway.

However, the main concern regarding supply at this point of time is the timeline for completion. The supply in various micro-markets may see a correction in the coming years. The actual supply may be lower than the planned supply, due to a delay in the delivery or due to postponement of construction. The retail developers, post-recession, have become much more cautious and in certain cases, may put on hold their projects due to weak consumer confidence in specific micro-markets, depending upon the economic situation prevailing then.

WITH NEW RETAIL SPACE OF APPROX. 2 MN.SQ.FT. SCHEDULED TO BE OPERATIONAL IN EAST KOLKATA BY 2012, APPREHENSIONS HAVE ARISED REGARDING PROJECTS' COMPLETION IN RAJARHAT DUE TO THE LACK OF INFRASTRUCTURE IN THE REGION

# Q1 2010 INDIA ORGANISED RETAIL MARKET

## Diagnosis & Outlook

While new retail space to the tune of almost 2 mn.sq.ft. is scheduled to be operational in the eastern part of the city by 2012, there have been apprehensions regarding the projects' completion, primarily in the case of Rajarhat. Apart from the not-too-favourable economic scenario there are also a few infrastructural issues in Rajarhat, discouraging developers to carry forth the construction work. These issues include the provision of power, water and sewerage connections which are yet to be established in the region. In spite of the government's reassurance, the area is yet to receive its basic amenities. It is believed that once these roadblocks are overcome, Rajarhat will become one of the most preferred destinations in the city.

Retail can only be expected to thrive in a location with sufficient business activities and residents. Given the pace of infrastructure development, Rajarhat is expected to take another three to five years to become fully operational. Although some of the planned office spaces are gradually becoming operational, in most residential projects people are yet to move in, despite some of them being completed. Unless the density of population of a certain class increases, retail ventures in that area cannot be successful. Thus, retail will have greater opportunity in Rajarhat only when the residential projects are occupied.

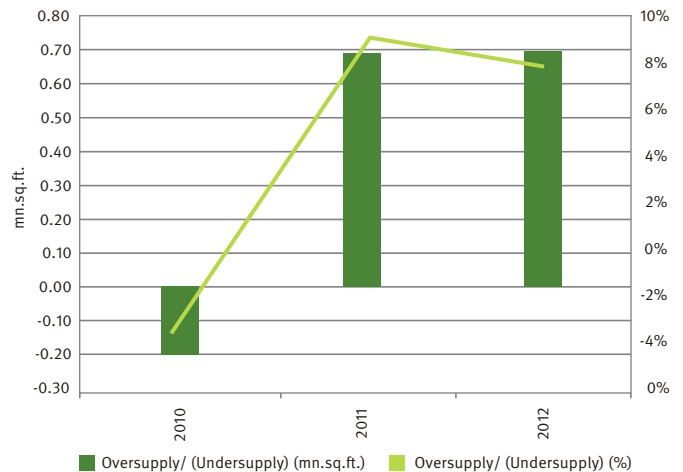
Looking forward, the year 2010 is not expected to witness much change in Kolkata's retail outlook as most of the prestigious projects that are in the pipeline will see the light of the day only in 2011 and 2012. Although Kolkata is considered to be the commercial hub of the East, in terms of business volume, the economic adjustments of 2009 did not impact Kolkata much. Further, the economic improvement has not had as much an impact on the conservative Kolkata shoppers' sentiments as it has in some of the larger cities. Therefore, it is equally important for the mindset of Kolkatans and mall developers in the city to change in order to achieve success on the retail front.

The retailers in Kolkata point out that this slowdown in mall construction need not be viewed negatively since the slowdown has helped in maintaining a good demand-supply equation, especially for markets which were staring at an oversupply situation. Thus, on a positive note, the growing confidence in the market may lead developers to see more success in finding occupants, and possibly see some recovery from the ill-effects of the oversupply situation and the resultant lack of interest by retailers.

As per Knight Frank Research's Retail Demand Supply Forecast Model, this theory thrown forward by retailers appears to be true. Through our model, we forecasted the organised Retail Market (ORM) for the upcoming three years (2010-2012) while also estimating the Real Estate Retail Potential (RERP) during the same period. Through our model, we forecasted the RERP and ORM for 2010 and concluded that there appears to be an undersupply of mall space in Kolkata. This is

Figure 66

### Kolkata: Retail Real Estate Scenario



Source: Knight Frank Research

because the ORM will have grown from Rs. 36 billion (in 2009) to Rs. 46 billion while the RERP will have reached Rs. 44 billion from Rs. 27 billion (in 2009), creating an undersupply of 0.21 mn.sq.ft.. This scenario seems to justify the retailers' belief as to why the slowdown in mall construction is not a bad thing, as it is helping to maintain the demand-supply equation.

However, the equation changes over the next two years with the RERP growing at a more rapid pace than the ORM. We believe that the RERP is growing so rapidly because we estimate there to be a supply influx of 3.31 mn.sq.ft. during 2011 and 2012. This will create an oversupply of mall space in Kolkata since the RERP is greater than the ORM. Based on our forecasting model, as of 2012 the RERP will be at Rs. 83 billion and the ORM will be Rs. 76 billion creating an oversupply of approximately 0.69 mn.sq.ft.. At 8% of the organised retail stock in 2012, this can be termed as medium oversupply.

AS OF 2012 THE RERP WILL BE AT RS. 83 BILLION AND THE ORM WILL BE RS. 76 BILLION CREATING AN OVERSUPPLY OF 0.69 MN.SQ.FT. WHICH IS 8% OF THE TOTAL RETAIL STOCK.



## CASE STUDY

Retail real estate was the most favored asset class during the economic upswing. The realization was the highest in the retail real estate assets and the upbeat expansion plan of domestic retailers and the entry of foreign retailers as also the debate on liberalizing the FDI in retail fuelled the sentiments of the developers. Faulty interpretation of the state of affairs left the segment with a scar. The growth in development of retail real estate was much faster than the growth in the retail business. This translated into a huge oversupply situation which will take a longer time to get absorbed than anticipated earlier. With the economic revival, the fortune of residential real estate has improved and to an extent, the demand for office space has also improved. But, the retail segment is still reeling on account of, muted consumer demand and high oversupply in many locations.

Thus, it becomes all the more important to delve further and provide a direction for the future of retail real estate. With this objective, Knight Frank Research attempted to forecast the demand supply dynamics in 7 major cities of the country for a period of 3 years (2010-12). While the analysis was conducted at a city level for 5 cities, a detailed zone level analysis was carried out for Mumbai and Bengaluru as case studies. These case studies present the findings of the analysis for Mumbai and Bengaluru.

The dynamics of Organised Retail Market (ORM) and the Real Estate Retail Potential (RERP), projected until 2012, provide the insight into the oversupply or undersupply situation in the retail real estate space. It is noteworthy to highlight that the undersupply or oversupply, calculated for the particular year, represents the situation as on that date. i.e. the oversupply/ undersupply situation at the end of one period should not be clubbed with the subsequent period.

The demand side is represented by ORM, the forecast for which is driven by three factors, namely; growth in the number of households, increase in the price level of expenditure categories, and growth in the share of organised retail market. Besides these primary drivers, we have also captured the impact of the incremental household income on the organised retail market. The concept of Marginal Propensity to Consume (MPC) was adopted to identify the share of incremental consumption expenditure on retail that is contributed by the income growth.

While the estimate of the ORM in the Total Retail Market in India is available in the literature, the share of a particular city or a zone was estimated by Knight Frank Research. We have done this with a presumption that the share of organised retail will be higher in regions with a higher proportion of middle income and high income households. Therefore, to arrive at the share of organised retail in the city, the all India share was adjusted with the factor of middle and high

income households as a proportion of the total households in the city. Similar approach was adopted to arrive at the penetration of organised retail in a particular zone in the city.

For the supply side, an exercise was undertaken to estimate the magnitude of retail space that can cater to our forecasted ORM. A survey was conducted to capture the Average Trading Density (ATD) of organised retail space in the respective zone. ATD represents the revenue per sq.ft. of saleable area and is collected from matured markets, and hence, represents optimal business scenario.

Hence, the ATD and the magnitude of organised retail space were used to calculate the Real Estate Retail Potential (RERP) for each of the years until 2012.

Through the dynamics of ORM and the RERP, we were able to identify the oversupply or undersupply situation in a particular zone in a particular time frame. The excess of ORM over RERP indicates an undersupply situation and the excess of RERP over ORM indicates an oversupply situation.

## MUMBAI

Table 48

### Zonal classification

Zone	Locations
Island City	Nariman Point, Haji Ali, Worli, Lower Parel, Dadar, Mahim
Western Suburbs	Bandra, Santacruz, Andheri, Goregaon, Malad, Borivali, Dahisar, Mira Road- Bhayander stretch
Central Suburbs	Matunga, Chembur, Ghatkopar, Mulund, Thane, Kalyan, Bhandup
Navi Mumbai	Airoli, Vashi, Kharghar

Source: Knight Frank Research

### Island City

The locations extending from Nariman Point to Dadar have been grouped and classified as the Island City Zone. This zone has 0.71 million households and amongst the four zones covered in the study, this zone has an average household income of Rs.0.68 million, which is the highest amongst these four zones. Moreover, the lead in terms of the highest household income will continue even in 2012 which augurs well for the organised retail market in this zone.

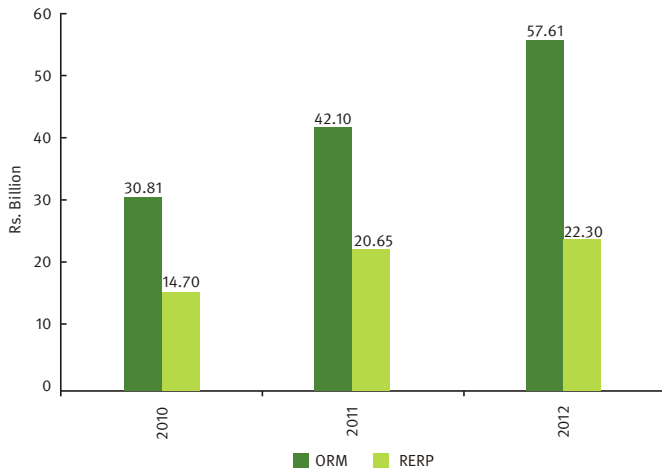
The zone has a dearth of organised retail space and the insignificant retail development, to the tune of just about 0.62 mn.sq.ft. over the next 3 years, means that the demand supply equation will be in favour of the developers. During 2009-12, the Organised Retail Market (ORM) in this zone will grow from about Rs.31 billion to Rs.58 billion which is an increase of 87%.

# Q1 2010 INDIA ORGANISED RETAIL MARKET

Diagnosis & Outlook

Figure 67

## Island City : Market Dynamics

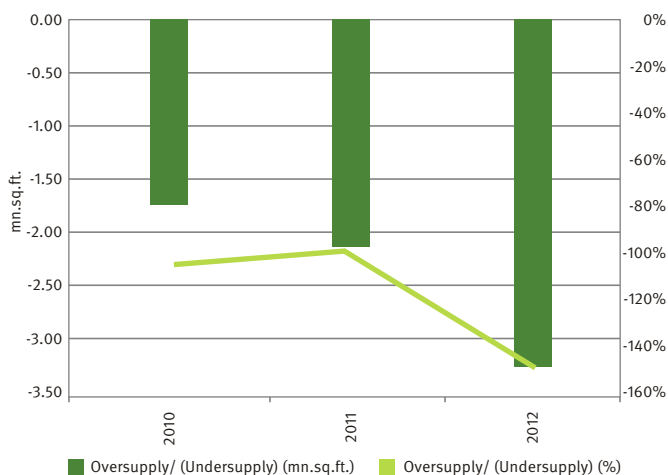


Source: Knight Frank Research

However, the Real Estate Retail Potential (RERP) will increase by only 52%. This situation will translate into a retail space undersupply of approximately 3.25 mn.sq.ft. in 2012. This also means that the developers should gear up their development plans to exploit this opportunity. Our forecast presents a situation which is in contrast to the decision taken by some large developers with respect to their development plans for retail space. For instance a large retail development in the Lower Parel micro-market was shelved during the 2008 economic downturn. But, we believe that the plan was shelved because of project specific reasons and poor demand conditions during the downturn. The future, however, remains bright for the retail development in this zone and it would not be surprising to see the retail space development gathering steam during the next 2-3 years.

Figure 68

## Island City: Retail Real Estate Scenario



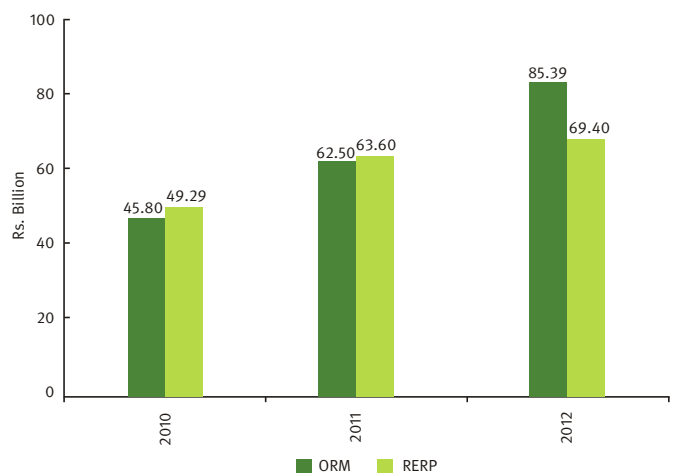
Source: Knight Frank Research

## Western Suburbs

The most vibrant zone in terms of the demographics and the lifestyle of the people residing in this zone, it has 1.43 mn. households, which will increase to 1.52 mn. households by 2012. At Rs.0.64 mn. per annum, the household income of the populace in this zone is next only to that of residents in Island city. The western zone has presence of notable retail developments like the Inorbit Mall in Malad, which also ranks amongst the most successful mall in the city. However, the zone faces a retail space oversupply in the medium term. The Organised Retail Market (ORM) in the zone is estimated at about Rs.46 bn. in 2010 whereas the Real Estate Retail Potential (RERP) will sum up to Rs.49 bn. This excess of RERP over ORM will create a retail space oversupply of 0.38 mn.sq.ft.

Figure 69

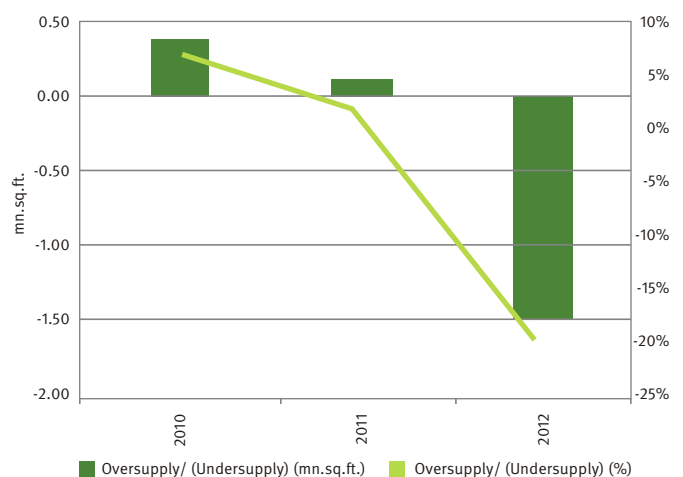
## Western Suburbs : Market Dynamics



Source: Knight Frank Research

Figure 70

## Western Suburbs: Retail Real Estate Scenario



Source: Knight Frank Research





But, on account of lack of significant retail supply, the ORM will outgrow the RERP during 2010-12 and this will overturn the situation from the current case of oversupply to undersupply in 2012. Until 2011, the demand supply mismatch will narrow down and in 2012 we forecast an undersupply of 1.49 mn.sq.ft. Therefore, we foresee that the retail rentals will again start their upward march in 2012.

## Central Suburbs

The micro-markets extending from Matunga to Kalyan have been classified as the Central Suburbs for the purpose of this retail study. The major organised retail developments in this zone are concentrated in Mulund and Thane. The zone is also witness to a high vacancy of approximately 29%. This vacancy can be attributed to high concentration of mall space in a particular catchment and also poor mall designing in many cases. The zone comprises of 1.58 mn. households and this will increase to 1.68 mn. households by 2012. The estimated average household income in the zone will increase from Rs.0.47 mn. to Rs.0.64 mn. over the next three years.

Figure 71

### Central Suburbs : Market Dynamics

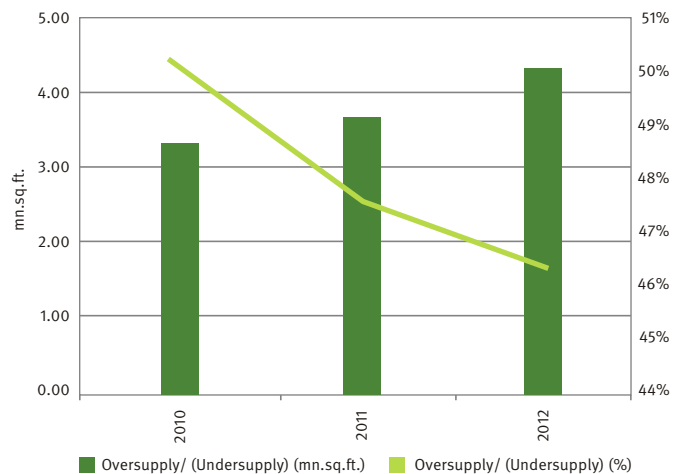


Source: Knight Frank Research

During 2010-12, the zone will witness an addition of 6.97 mn.sq.ft. of organised retail space to the existing stock of 2.38 mn.sq.ft. At the end of 2010, the Organised Retail Market (ORM) size at Rs.28 bn. will be much smaller than the Real Estate Retail Potential (RERP) of Rs.59 bn. This will create an oversupply situation to the extent of 3.33 mn.sq.ft. in 2010. Further until 2012, the situation will worsen with an oversupply of about 4.35 mn.sq.ft. in 2012. It is highly unlikely that the developers will continue with such a situation, and project delays, which is a prevalent phenomenon as of today will continue until the ORM catches up with RERP.

Figure 72

### Central Suburbs: Retail Real Estate Scenario



Source: Knight Frank Research

## Navi Mumbai

The Navi Mumbai zone comprises of locations stretching from Airoli to Panvel. This zone has a population of 0.43 mn. households, which will increase to 0.49 mn. households by 2012. The organised retail space in the zone is concentrated in the Vashi micro-market and many of the malls are operating at a sub optimal level. The phenomenon of retailers shifting from existing malls to the newly opened ones is also prevalent. Similarly, another visible phenomenon is that many of the tenants have cut down on the area occupied by them. This is due to the fact that the smaller malls are not generating sufficient footfalls.

Figure 73

### Navi Mumbai : Market Dynamics



Source: Knight Frank Research

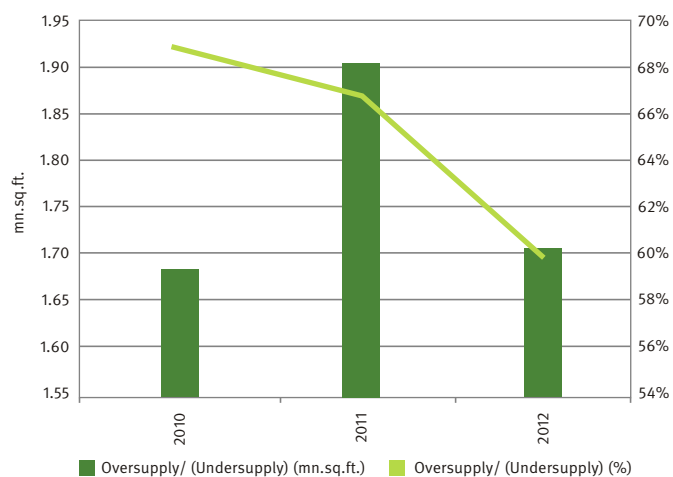
# Q1 2010 INDIA ORGANISED RETAIL MARKET

## Diagnosis & Outlook

The organised Retail Market (ORM) in the zone is much smaller than the Real Estate Retail Potential (RERP) that is already created, which has led to an oversupply situation in the zone. As per our forecast, the ORM will reach to Rs.9.8 bn. in 2012 but the RERP will increase much faster to Rs.27 bn during this period. This situation, which will primarily emanate from the fact that the organised retail stock will double between 2009 and 2012, will translate in to an oversupply of 1.71 mn.sq.ft in 2012. As a result, the downward pressure on retail rentals in the zone is expected to continue over the next 2-3 years.

Figure 74

### Navi Mumbai: Retail Real Estate Scenario



Source: Knight Frank Research



## Mumbai



Table 49  
Estimated Scenario in 2012

Mumbai	ORM Growth (2009-12) (CAGR)	ORM (in Rs. Million)	RERP (in Rs. Million)	Oversupply/ (Undersupply) (Mn.sq.ft.)
Island City	41%	57,612	22,309	-3.25
Western Suburbs	40%	85,395	69,409	-1.49
Central Suburbs	37%	50,316	98,538	4.35
Navi Mumbai	35%	9,805	26,576	1.71

Source: Knight Frank Research

- Island City
- Western Suburbs
- Central Suburbs
- Navi Mumbai

# Q1 2010 INDIA ORGANISED RETAIL MARKET

Diagnosis & Outlook

## BENGALURU

Table 50

### Zonal Classification

Zone	Locations
Central Business District (CBD)	MG Road, Brigade Road, Magrath Road, Infantry Road, Cunningham Road, Ulsoor
North Zone	Hebbal, Bellary Road
South Zone	Koramangala, Hosur Road, Bannerghatta Road, Outer Ring Road, Jayanagar, JP Nagar
East Zone	Indira Nagar, Old Airport Road, Marthahalli Junction, Old Madras Road, KR Puram, Brookefields, Sarjapur Road and Whitefield
West Zone	Malleswaram, Rajajinagar,

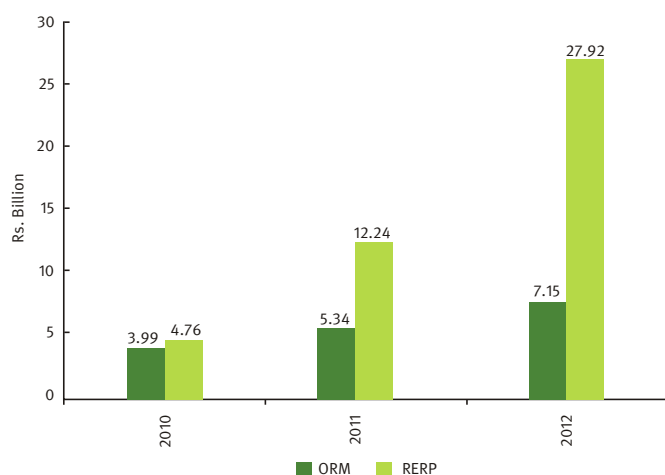
Source: Knight Frank Research

### East Zone

The East Zone comprises of 0.33 mn. households and with an annual growth rate of 5.44%, which is the second highest growth in the city, the number of households will increase to 0.39 mn by 2012. Further, the average household income in the zone is Rs.0.51 mn. p.a. which will increase to Rs.0.70 mn in 2012.

Figure 75

### East: Market Dynamics



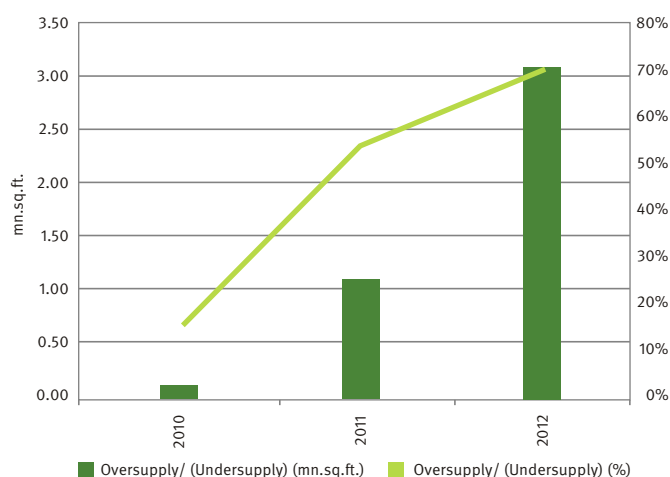
Source: Knight Frank Research

As per Knight Frank Research Forecast, the Organised Retail Market (ORM) in the zone will increase to 1.8 times from the current Rs.3.9 bn. to Rs.7.1 bn. during 2009-2012. However, on account of a significant retail space supply of 3.5 mn.sq.ft. during 2010-12, the Real Estate Retail Potential (RERP) will increase much faster (6 times) from the existing Rs.4.7 bn. to Rs.28 bn. during this period. The situation implies that there will be an acute oversupply of retail space, which will increase from 0.13 mn.sq.ft in 2010 to 3.09 mn.sq.ft. in 2012.

The impending situation makes case for a constant downward pressure on retail rentals over the next 3 years. Although a scenario that is contrary to our forecast is likely, that will happen only with sub optimal business i.e. significantly lower trading density. This means that the higher occupancy will be achieved at the cost of revenue.

Figure 76

### East: Retail Real Estate Scenario



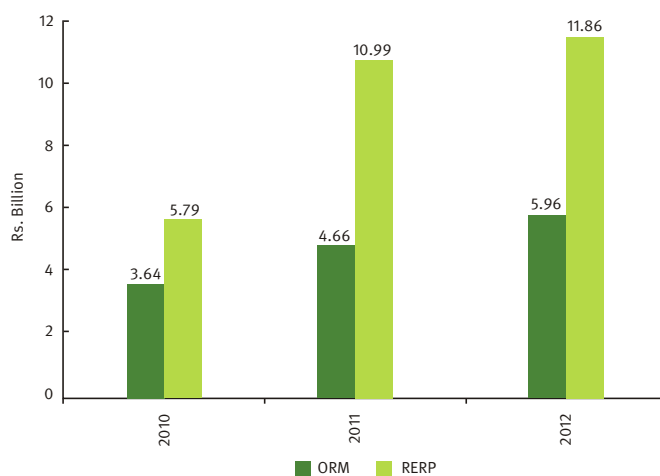
Source: Knight Frank Research

### West Zone

The zone has 0.46 mn. households and at an annual growth rate of 2.85%, it will increase to 0.50 mn. households by 2012. The average annual household income in the zone will also increase from the current Rs.0.42 mn to Rs.0.58 mn. by 2012.

Figure 77

### West: Market Dynamics



Source: Knight Frank Research

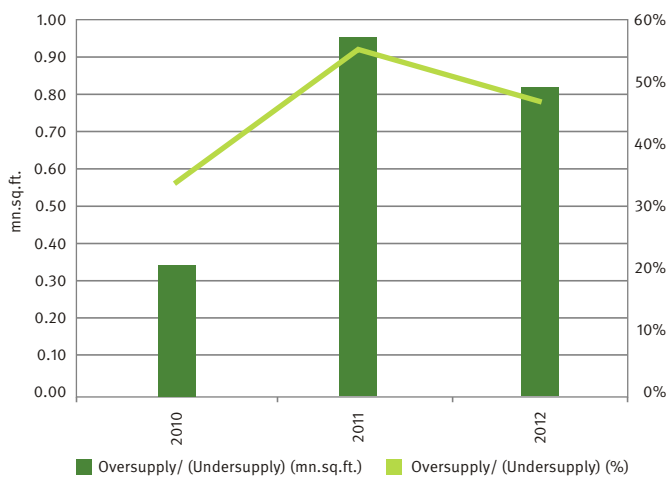
At the end of 2010, the size of the Organised Retail Market (ORM) is estimated at Rs.3.64 bn, whereas the magnitude of Real Estate Retail Potential (RERP) will be much higher at Rs.5.79 bn.



Owing to this mismatch, there will be a retail space oversupply of 0.35 mn.sq.ft. Moreover, the oversupply situation will worsen in 2011, when 0.8 mn.sq.ft. of organised retail space will be added to the zone. At the end of forecast period, the retail space oversupply is projected to be 0.82 mn.sq.ft., implying a downward pressure on rentals until 2012.

Figure 78

### West: Retail Real Estate Scenario



Source: Knight Frank Research

## North Zone

The zone has the highest population growth rate. At an annual growth rate of 6.66%, the number of households in this zone will increase from 0.15 mn. in 2009 to 0.18 mn. in 2012. The average annual household income in this zone will also increase from Rs.0.48 mn. to Rs.0.66 mn during 2009-12.

Figure 79

### North: Market Dynamics

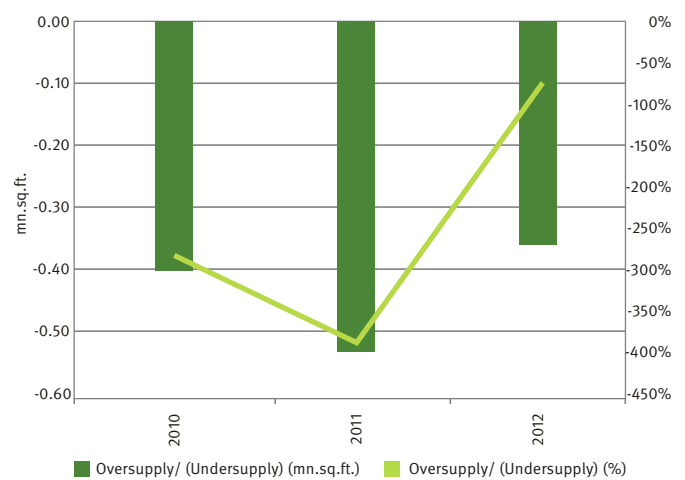


Source: Knight Frank Research

At the end of 2010, the Organised Retail Market (ORM) in the zone will be Rs.1.7 bn, but the size of Real Estate Retail Potential (RERP) will be lower at Rs.0.43 bn. The shortage of RERP in comparison to ORM will create a case of shortage of retail space in this zone. As per our 2010 forecast, the zone can absorb an additional 0.4 mn.sq.ft. Besides a 0.35 mn.sq.ft. of development in 2012, there is no other significant supply coming up in the zone until 2012 and hence the existing retail properties will command dearer rentals going forward.

Figure 80

### North: Retail Real Estate Scenario



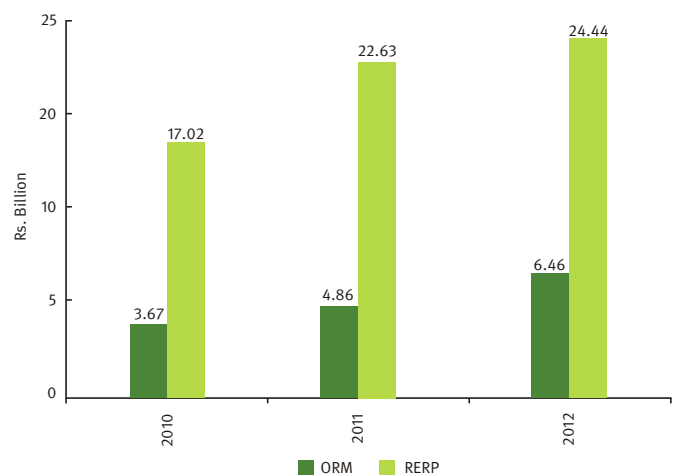
Source: Knight Frank Research

## South Zone

The South zone has close to 0.30 mn. households and at an annual growth rate of 4.4%, this number will increase to 0.34 mn. households. The zone also has the highest average annual household income, which will increase from the current Rs.0.52 mn. to Rs.0.71 mn. by 2012.

Figure 81

### South: Market Dynamics



Source: Knight Frank Research



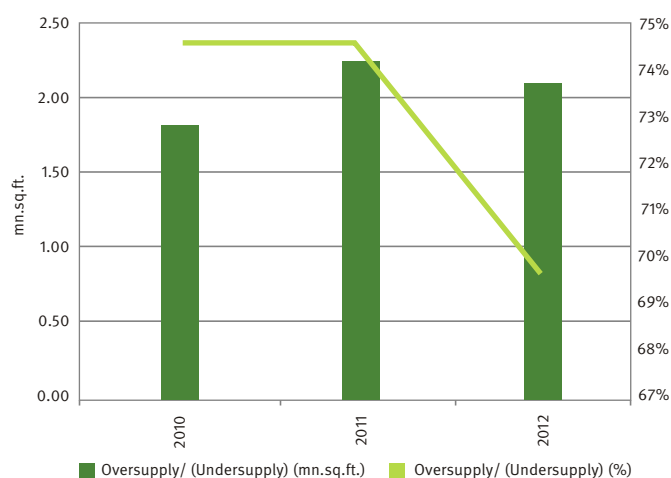
# Q1 2010 INDIA ORGANISED RETAIL MARKET

## Diagnosis & Outlook

The Organised Retail Market (ORM) in the zone is estimated at Rs.3.7 bn. in 2010 and the Real Estate Retail Potential (RERP) will be Rs.17 bn. This clearly presents the scenario where the retail real estate market will witness an oversupply of approximately 1.82 mn.sq.ft. and further in 2012 this over supply will increase to 2.11 mn.sq.ft. This constant oversupply over the next 3 years will keep a check on retail rentals.

Figure 82

### South: Retail Real Estate Scenario



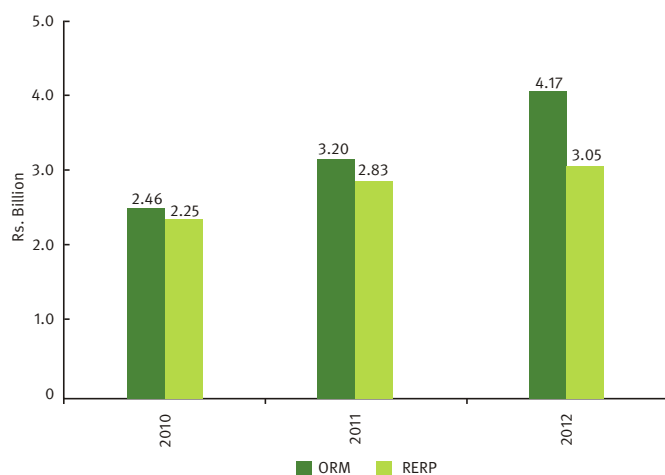
Source: Knight Frank Research

### CBD

The CBD zone comprises of 0.20 mn. households and the growth rate of population in this zone is amongst the lowest in the city. With an annual population growth rate of 2.31%, the number of households in the zone will increase to 0.22 mn. At Rs.0.51 mn. p.a., the household income in the zone is the second highest in the city and by 2012 the household income will increase to Rs.0.71 mn.

Figure 83

### CBD: Market Dynamics

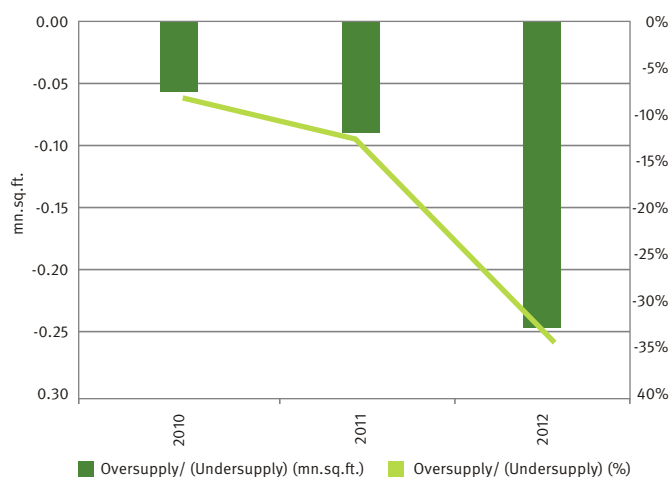


Source: Knight Frank Research

The organised retail stock in the city is restricted to just 0.61 mn.sq.ft. and over the next 3 years only 0.1 mn.sq.ft. is slated to come up in the region. The Organised Retail Market (ORM) in the zone is estimated at Rs.2.4 bn in 2010, which is marginally higher than the Real Estate Retail Potential (RERP) of Rs.2.2 bn. We project that in future this divide between the ORM and RERP will increase thereby creating an undersupply of retail space. By 2012, the ORM will grow to Rs.4.1 bn. whereas the RERP at Rs.3 bn. will lag behind it. This situation will create a shortage of organised retail space to the extent of 0.25 mn.sq.ft. Consequent to the increasing shortage of retail space over the next 3 years, the rentals in the zone in all likelihood will increase.

Figure 84

### CBD: Retail Real Estate Scenario



Source: Knight Frank Research



## Bengaluru

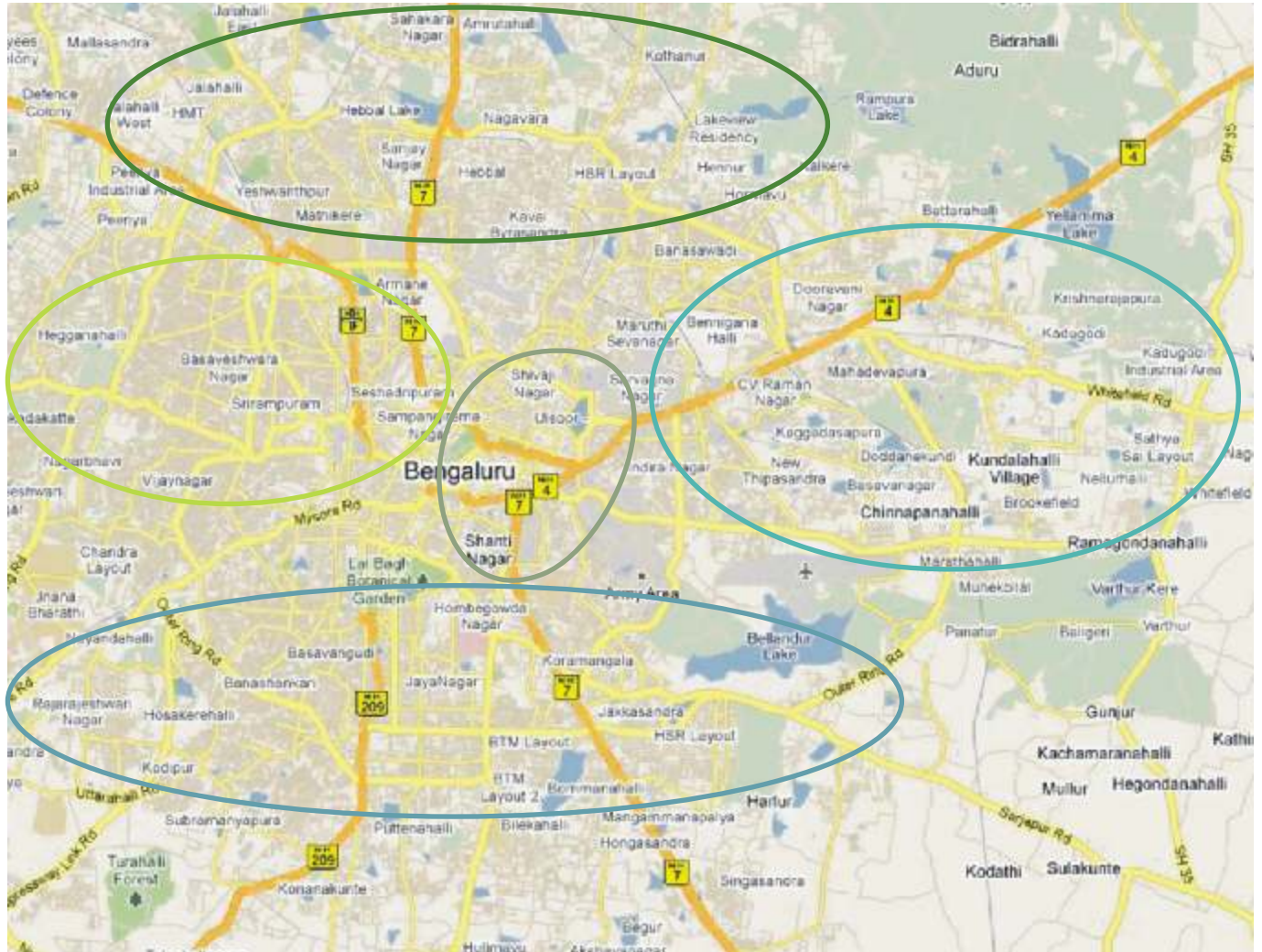


Table 51

### Estimated Scenario in 2012

#### Bengaluru

	ORM Growth (2009-12) (CAGR)	ORM (in Rs. Million)	RERP (in Rs. Million)	Oversupply/ (Undersupply) (Mn.sq.ft.)
East	34%	7,155	27,920	3.09
West	28%	5,964	11,869	0.82
North	34%	3,162	1,785	-0.36
South	33%	6,462	24,441	2.11
CBD	30%	4,172	3,059	-0.25

Source: Knight Frank Research

- East Zone
- West Zone
- North Zone
- South Zone
- CBD

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