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Recession fear forces firms to shelve mall plans

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Many real estate companies have shelved or dropped their plans to set up mall as demand for new malls from retail companies have fallen significantly. With fears of an impending recession gripping the sector, only half of the proposed 250 retail mall projects are expected to come up, according to industry sources.

Companies such as Mumbai-based Raheja Universal, New Delhi-based Omaxe, Bangalore-based Nitesh Estates as well as Puravankara Projects have all dropped their retail plans. Financial Chronicle, on May 16, had reported that retail chains are going slow on their expansion plans. "Every contract that is up for renewal is being renegotiated downward these days," says Pranay Vakil, chairman, Knight Frank India.

"Of the 250 mall projects that have got clearances from government bodies, only 120 will come up. Developers do not want to get into this business because there is a fall in demand," Vakil told Financial Chronicle.

Senior officials from real estate companies have agreed that their plans to foray into the retail sector are now on the backburner. "We had retail plans. But we dropped it because there is less demand from the sector. Now, we are focussing on the hospitality sector," said an official from Raheja Universal, who did not wish to be identified.

According to Susil Dungarwal, founder & CEO, Squarefeet Management, a mall concept management company with focus on retail and real estate, the demand for malls from retail chains is on a steady decline. "Typically, first-time developers or small-time developers in smaller towns have dropped their plans to develop malls," he says.

Dungarwal, however, said there is still good demand for good quality malls and shopping centres. "If developers make good quality shopping malls, they still get to strike a deal according to their terms."

Shubhranshu Pani, managing director - retail, Jones Lang LaSalle Meghraj, said, "Delivery of projects remains an issue. However, I am certain that, going forward, only serious developer interested in retail real estate play will remain in the fray."

"From developers point of view, I see many developers beginning to show empathy and understanding of retailers' concerns and issues, with many opting for minimum guarantee and revenue share arrangement with retailers and sharing a bit of the risk," he adds.

Vikram Bakshi, managing director of McDonald's India, had recently told India Retail

Forum that “he is happy about the downturn” because real estate rentals “would come down to realistic levels.”

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