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SHOPPING SPACE

Mall developers offer free rentals to entice retailers

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MUMBAI

Mall developers are wooing retailers with incentives such as free rentals for three-six months and rebates on furniture and fixtures as they struggle to fill a glut of shopping space.

For instance, Neptune Builders, which launched its Neptune Magnet Mall in Mumbai's Mulund area in January, is offering retailers rent-free space for three months provided they open shop by May.

"Such incentives are necessary as the current retail scenario is very weak and we needed to give the retailers some comfort," said Sanjay Prabhu, chief managing officer of Beyond Squarefeet Mall Management Pvt. Ltd, a mall management consultancy firm that operates Neptune Magnet Mall. "Free rentals should help to get retailers on board quicker and make the mall a success."

Neptune Magnet, whose tenants include McDonald's, Cream Centre, Bharti Wal-Mart Hypermarket and Lilliput World, is the fifth mall on the LBS Highway between the Mumbai suburbs of Mulund and Kurla. The others are R Mall, Nirmal Lifestyle, R City Mall and Phoenix Market City. The Mulund-Kurla stretch saw an addition of close to 2 million sq. ft of space in 2011.

Slowing economic growth and a weak consumer senti-

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Offering incentives: *Ambience Mall in New Delhi. Ambience offered retailers rent-free space for six months and partially reimbursed their furnishing costs to attract more tenants.*

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Malls offer rent-free space to retailers

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ment have caused retailers to put expansion on hold. High inflation—which was a higher-than-expected 6.95% in February—and borrowing costs that have risen after 13 interest rate hikes by the central bank since March 2010, have proved to be deterrents to consumer spending in an economy that grew 6.1% in the three months ended 31 December, the slowest pace in nearly three years.

To be sure, giving incentives to retailers is not a new concept. In more mature organized retail markets, too, developers offer space free of rentals in the initial months after the launch of a new mall—a trend that is now catching up in India, said Anshuman Magazine, chairman and managing director of **CB Richard Ellis** (CBRE), a property consultancy, development and management services firm.

Mall developers and retailers started tweaking their business model by shifting from fixed rentals to revenue sharing in 2009 in the aftermath of the global financial crisis that peaked with the collapse in September 2008 of US investment bank Lehman Brothers. Some also experimented with an escalating rental model—subsidizing the rent in the first year and increasing it gradually as business stabilizes.

Rentals are the largest component of a retailer's overall costs. **Aditya Birla Retail Ltd** (ABRL), which runs the More supermarket and hypermarket chain, recently shut down close to 30 of its small stores in Mumbai on account of high rentals making the format unviable, said Pranab Barua, chief executive officer of ABRL, who took charge in early March from Thomas Varghese.

Inorbit Malls (India) Pvt. Ltd, run by **K Raheja Corp.**, is offering a 25-30% rebate on rentals to the retailers at its latest project in Bangalore that will open next month.

Ambience Pvt. Ltd, which opened its Ambience Mall in New Delhi's Vasant Kunj neighbourhood with three store in July 2010, offered retailers rent-free space for six months, and partially reimbursed their furnishing costs to attract more tenants. Three months ago, the mall launched its food court and still has construction work going on in a basement floor.

"The mall will reach its full potential in year three," said Raj Singh Gehlot, chairman of Ambience.

The incentives offer some solace to retailers during the tough economic times.

> Mall developers and retailers started tweaking their business model by shifting from fixed rentals to revenue sharing in 2009

"We have been told that our rentals are waived off for three months," said an official at vegetarian restaurant chain Cream Centre, which launched a 140-seater outlet in Neptune Magnet Mall this year.

Even then, the Mumbai-based restaurant chain has not been able to meet its operational expenses because not even 20% of the mall is operational. "We are doing business of only ₹6,000-8,000 per day, but need ₹65,000 revenue per day to sustain our operations," said the Cream Centre official, who didn't want to be named.

According to Smita Jatia, managing director of **Hardcastle Restaurants Pvt. Ltd**, the franchise for McDonald's India in the west and south, the average time for a new location to stabilize and generate business is anywhere between three and six months, depending on the location and consumers' awareness about the McDonald's brand in a particular city.

The company, Jatia said, has not received any incentives from mall developers even though it is usually among the first retailers to take possession of space in a new mall.

A fully operational mall means a developer can start paying back loans faster. The developer's costs start building up from the time of land acquisition. From conceptualization to launch and the mall becoming operational, it takes at least five years, said Bappaditya Basu, vice-president and head (retail and leisure advisory, west India) at property consultancy **Jones Lang LaSalle Property Consultants (India) Pvt. Ltd.**

According to Basu, the development cost of a mall can be anywhere between ₹2,000 and ₹3,500 per sq. ft, depending on the facilities offered and location.

About 155 malls are operational in India currently, spread over 60 million sq. ft of retail space in the Delhi-National Capital Region, Mumbai, Bangalore, Hyderabad, Kolkata, Chennai and Pune, and smaller cities such as Ludhiana, Chandigarh, Amritsar, Vijaywada, Lucknow and Kanpur. Close to 31 malls, offering 13.5 million sq. ft, are expected to be operational in these cities in 2012, said Magazine of CBRE.

"At least a third of the overall malls supply is perennially empty due to bad management and layout," said Basu.