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TRENDS

Drivers of growth

The recovery phase of the realty sector is not just limited to residential spaces, but commercial spaces as well. Malls seem to be driving this growth on the commercial front, reports Bindu Gopal Rao

Talking heads Left: Susil Dunganwal, Chief Mall Mechanic, Beyond SquareFeet. Right: Naveen M Raheja, MD, Raheja Developers Ltd. The realty sector is on an upswing. With recession slowly but surely turning its back towards real estate, the industry is certainly heaving a sigh of relief. What is heartening to note is that the recovery phase is not just limited to residential spaces. Commercial spaces are experiencing signs of recovery too, particularly driven by malls.

Opportunities galore

Malls continue to act as major catalysts in driving realty growth in India with the organised retail sector being the second largest industry contributing to the Indian economy. With the expanding middle and upper class consumer base, it is predicted that there will be a thrust of opportunities in India's tier II and III cities.

"The greater availability of personal credit and a growing vehicle population to improve mobility also contribute to a trend towards annual retail sales growth of 11.4 per cent. Mass grocery retail (MGR) sales in India are forecast to undergo enormous growth over the forecast period. This is a consequence of India's dramatic and rapid shift from small independent retailers to large, modern outlets," says Amit Raj Jain, Sr Vice President (Marketing), BPTP Limited.

As more malls are coming up with the best infrastructure prevalent, it enhances the retail experience of the customer to a higher level, and thereby also results in better conversion in relation to time spent.

Manish Karsija, Manager, Governance, Risk and Compliance Services, KPMG adds, "It's a chicken and egg situation. Whereas on one hand, malls are required to be set up for deriving premium price for housing projects; on the other hand without parallel/simultaneous housing projects, retailers/investors don't find the mall a lucrative business investment. Though malls boost realty growth, there are other factors such as schools, hospitals, utilities and infrastructure in general, which gain more importance when one selects a place to live."

Past experience demonstrates that the residential property rates spike after a mall project is announced in the vicinity because it is considered as a matter of convenience for residents.

As the real estate industry matures, there is a more scientific approach to the development of malls. "Developers are increasingly circumspect about committing to a mall and are giving considered attention to the needs of consumers and retailers and have begun to understand their catchments and scale better. Unlike earlier, merely having a large enough property facing a major/arterial road is not reason enough to build a mall any more. This has led to better planned malls, lower supply and better realisations for the developer," says Jaishankar - CMD Brigade Group.

Change is in

As per the RICS Indian Commercial Property Survey Q2 2010, an upswing in retail demand coupled with an increase in capital values and confidence in future letting activity has been experienced due to improved economic sentiment in the country. The factors or causes for growth are several. "From a macro perspective fact, organised retailing is addressing only five-six per cent of the total retailing of the country; it indicates the unmet demand and large scope for growth in the years to come.

"Secondly, the need for brands to be present in an environment or ambience that seeks to capture the money-share and mind-share of the customer is possible only in malls. Given the constraint of the limited time available with the urban customer to fulfill his or her needs, it is logical for a cluster of brands to be present at a single location like mall, which meet their demands," says Aroonkumar, CFO, Express Infrastructure.

Real estate as an investment medium has its cycles, its relative 'ups and downs'. "Right now, demographic, urbanisation and economic indicators reflect a strong upsurge in retail mall development fundamentals represented through strong retailer growth and a broad middle class to support this growth. This leads to retailers developing a keen appetite to grow their chains and this is a keen signal to astute mall developers to plan and build appropriately sized malls where they are needed," explains Jonathan David Yach, Chief Executive Officer, Mantri Square Shopping Mall. With changing demographics, higher disposable incomes and fewer differentiations in consumer spending patterns, smaller towns and cities are now emerging as growth engines for retail.

"Not only do these regions such as Ahmedabad, Aurangabad, Jalandhar, Ludhiana, Mysore and Vijayawada have land at affordable prices but they also have a relatively large consumer base, resulting in the creation of more retail space in these areas.

"Additionally, with the trend gradually moving towards bulk retail, investments are moving towards industrial areas where well located warehouses can be converted into retail space, which could derive higher rent per square meter.

"Also, with over 300 malls expected to be operational over the next three years of which 250 continue to be located in metro and tier I cities, newer shopping formats in the form of shopping strips and hyper-markets are also introduced," says Sachin Sandhir, MD, RICS India.

Retailers today face many challenges, including increasing competitive pressures, thin margins, high occupancy costs and unpredictable supply base that come in the way of their attaining operational efficiency and profitability. Malls could support the drive of the realty growth, as they reflect the sentiments of the spending power of the consumer. "While other sectors like residential and commercial drive the sector, malls only compliment that growth, in that sense it becomes a key driver for the growth of the sector, because slowly, malls have become convenience centres to support the growth of both the sectors," opines Susil Dunganarwal, Chief Mall Mechanic, Beyond SquareFeet.

Dynamic spaces

Unlike residential and commercial spaces, wherein flow of traffic is by and large in a time bound fashion, a mall is a public space with significant footfalls and movement. It is much more dynamic and hence the real estate has to meet several conditions like roads accessibility, visibility, and proximity to mass transport systems to ensure the offering becomes a success. Further, unlike residential and commercial spaces, a mall has to be managed on a continuous basis in order to deliver the experience it stands for.

“The biggest challenge is to get a location that is accessible followed by approvals,” says Kishore Bhatija, CEO, Inorbit Malls. Similarly there are different challenges in terms of construction wherein the developer has to on the one hand consider building a world class public area and on the other hand make it space effective and efficient in service areas. “If FDI is permitted in retail then growth of malls will be spurred because big names will need locales within and out of city. Only large international brands can afford mall rentals which would naturally be high priced,” says Ashok Iyer, Country Head, Sales & Marketing, Shriram Properties.

Adding to the woes are archaic land acquisition, urban land ceiling and rent control laws which exert further pressure on space availability as property prices remain distorted across regions. Also, high impositions of stamp duties across states restrict transfer of property and severely impact the growth potential of the sector.

Navin M Raheja, MD, Raheja Developers Limited adds, “The biggest challenge is that malls can run well either if sold only to end users or completely leased out directly by the developer instead of first selling it to investors.

The result is that only developers with deep pockets and long gestation periods are able to taste success if they run on this model. The rest fall into the trap of selling it to investors in order to generate cash flows for the construction of the mall. The investor stock typically lies vacant since the rents they expect sometimes do not materialise.” And for the consumer it’s mall effect all the way!

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