STUFF OF NIGHTMARES: No power supply and gaping vacancies have left Dreams Mall in Bhandup looking like a haunted house

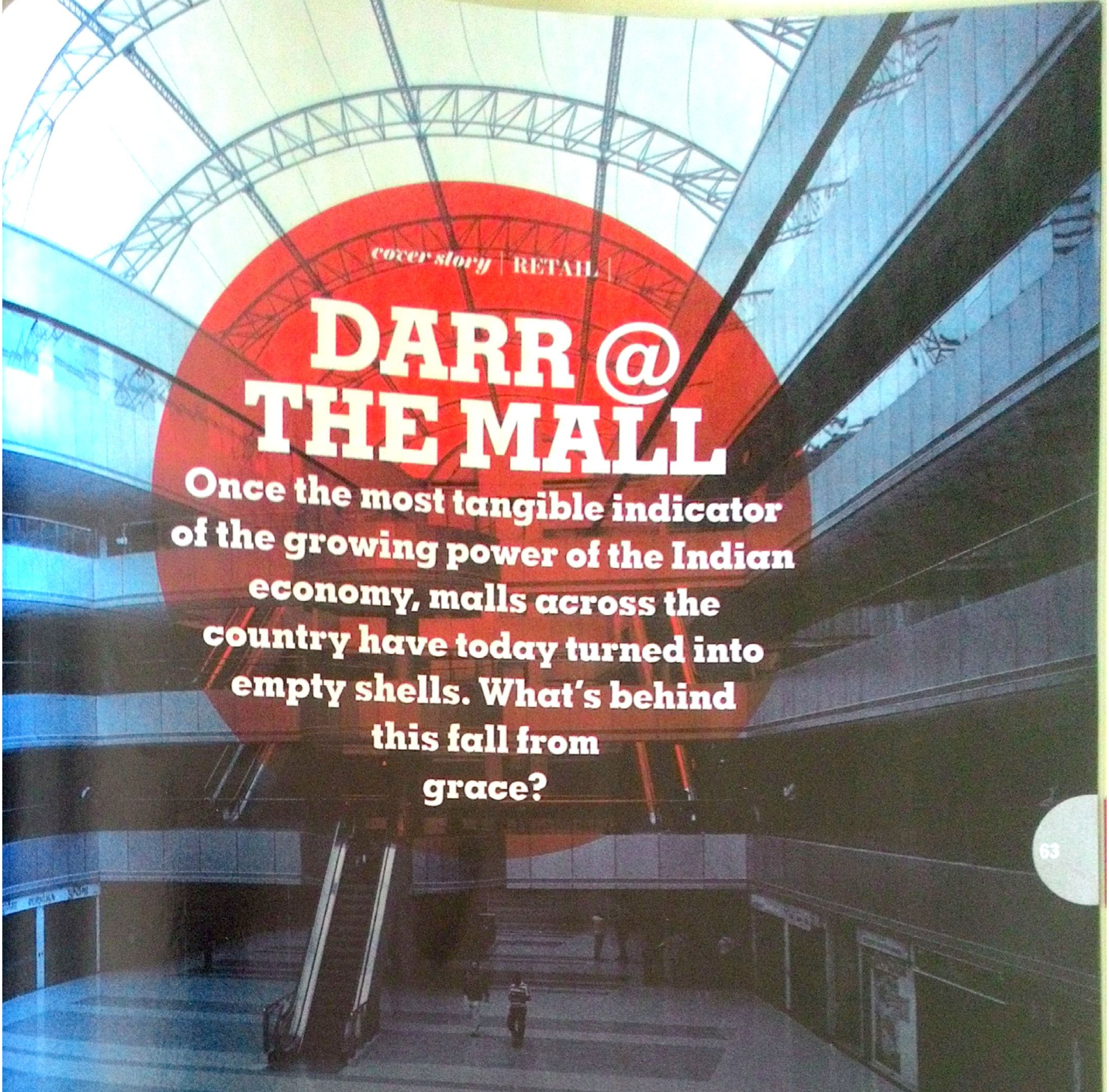
Krishna Gopalan, with additional reporting by Himanshu Kakkar

Shrikanth Swaminathan is livid. It's 3 pm on a hot Saturday afternoon and the software professional is baking under the mid-day sun on the hot concrete pavement outside Dreams Mall in Bhandup, with 100 others for company. On any given day at any of the better-known malls in Mumbai, Swaminathan and his motley crew would have blended in with the rest of the weekend shoppers. Not today and not here, though. Swaminathan and the others have plonked themselves down outside the north-east suburban Mumbai mall precisely because there is nothing inside: no power supply since Thursday, no water supply for over a year and — no surprises there — no sign of even window shoppers. "We have been taken for a ride," says Swaminathan, as his fellow picketers nod in agreement. That's quite an understatement, given that shopkeepers have been using generators since November 2014 thanks to the erratic power supply at the mall. Swaminathan says he regrets buying his 500 sq ft shop for the princely sum of ₹30 lakh in 2009. "It was a great location and I thought I was making a sound business decision," he says. Now, he and 1,092 other storeowners have been left to fend for themselves.

An HDIL project, Dreams Mall is built over a total area of 8.5 lakh sq ft and was completed in 2008. Not including the common area, nearly 5 lakh sq ft of space at the mall is divided equally between the developer and the shopkeepers, who say the company assured them that a society would be formed to ensure that the mall was well-maintained. "Nothing has been done towards that end over the past five years and the company has now stopped responding to our calls and emails," says Swaminathan. The mall by itself paints a very sorry picture. While it has

DARR @ THE MALL

Once the most tangible indicator of the growing power of the Indian economy, malls across the country have today turned into empty shells. What's behind this fall from grace?



since shut down, during our last visit a little over a week ago, we found little indication of business as usual, with most of the shops occupied by chartered accountants or coaching centres. The place was run-down, messy and dusty, with its small food court and multiplex forlorn and empty even on a weekend. Just about 40% of the shops were occupied and non-payment of electricity dues had plunged the place into darkness.

Though HDIL officials declined to comment, the mall occupants — who are struggling to pay back their bank lo — make no bones about the fact that they feel sh changed by the ₹954-crore Mumbai-based devel- The mall is nowhere close to the "landmark com- al hub" that HDIL professed it to be on its website op-owners like Swaminathan have no choice but their property for a loss.

to Delhi's North Pacific Mall in Pitampura. It a dusty and run-down look. Even before you enter, you are welcomed by stray dogs and filth. Obvious signs to identify a failed mall in the capital include an overarching presence of wine shops on the ground floor, a banquet hall, and a bank. Save the banquet hall, this mall passed on all counts, and has added garbage, dust and a lone guard to its premises as well. The only venture that creates a little activity is Movie Time, which offers the cheapest multiplex tickets in the entire city. Interestingly, the multiplex uses its own generator for power, since it is in the middle of a dispute with the Bansals, the mall's developers, over unpaid dues.

Thanks to the lack of footfall in the mall, what used to be a food court is now a gym. Almost 80% of the shops are empty or locked. Looking through some of the locked glass doors, one can see that the former occupants haven't bothered to take their furniture or signage with them. Those who still hold shop here no longer pay any maintenance. Two months ago, there was

AR

a fire in one of the stores, resulting in a burnt capsule lift path. The damages from the fire remain untouched.

Hanish Gupta, who runs his property dealership from a 10x10 shop on the first floor, has also given up. "Since the power companies have cut supply, I had to arrange my own," he says. He bought the shop for ₹25 lakh in 2005. "Today, there is no market here. Nobody will pay me ₹25 lakh after 10 years," he laments.

This is the unfortunate story that has played out with most other malls across the country. Overhyped and sold on the promise of massive return, the malls business is turning out to be a disaster for those who sunk their money into buying mall property.

Mirroring the growth of real estate in the country, nearly 180 malls have mushroomed across India since 2005, with 86 of them having been launched in the 2006-09 period. As per recent estimates, close to 500 malls have been built across the country to date, with at least 450 being operational failures. While around 40 have been shut down, the rest are just about getting by. Only about 50 operational malls can actually be called successful, with the others failing to get the basics of the business right. Normally, a mall must attract as much footfall per month as the square feet area it has for it to survive i.e., if the mall has an area of five lakh square feet, it should attract a footfall of five lakh per month. Currently, less than 125 malls in the country make that cut, according to Beyond Squarefeet, a mall advisory company. The lack of quality infrastructure, the short-term and opportunistic mindset of developers and getting the viability mix wrong are just some of the problems plaguing this sector. The inevitable culling that followed should ideally not come as a surprise to anyone.

180
TOTAL NUMBER OF MALLS BUILT SINCE 2005

SELLING THEMSELVES SHORT

While Mumbai's satellite city Thane is commonly referred to as lake city, it wouldn't be inaccurate for someone to rechristen it as mall city either. Apart from the R City and Nirmal Lifestyle malls in neighbouring Mulund, Thane also boasts of seven others within a five-kilometre radius. Rasesh Kanakia's Wonder Mall (set up in 2003 over an area of 1 lakh sq ft) and Eternity Mall (set up in 2006 and thrice the size of Wonder Mall) are part of this formidable list, though he doesn't like being reminded of this detail. This is because the malls business is the one segment where Kanakia — who's better known for his movie exhibition business Cinemax — has tasted failure. He thinks the small size of the malls and the absence of anchor tenants worked against him, though there is another important factor that may have played a part — he sold off retail space of all sizes in both the malls. "My construction cost was ₹3,000 per sq ft and I was getting offers around ₹6,000 per sq ft; lease rates were barely ₹40 per sq ft," recalls Kanakia.

For a realtor, selling land at double the rate of construction may make good business sense but the logic is not so simple when it comes to malls. Kanakia retained 35,000 sq ft space at each of his two malls for his multiplex chain and sold the rest of the commercial space, which means the malls today have multiple owners and no common agenda. That lack of synergy has a direct impact on how big a crowd the mall draws, as he has learnt over the years. What makes matters worse for Kanakia is that this hurts his multiplex business as well, since that is driven by footfall. "I think we took a very short-term view of the mall business and that was probably not a good idea," says Kanakia, who today runs a ₹1,000-crore business group.

Perhaps Kanakia's first and biggest mistake was to sell retail space. It is harder to figure out whose responsibility it is to maintain common areas where developers have sold spaces to different individuals or companies. And maintenance is no laughing matter: if it is compromised, customers won't get the de-

"I THINK WE TOOK A VERY SHORT-TERM VIEW OF THE MALL BUSINESS AND THAT WAS PROBABLY NOT A GOOD IDEA

RASESH KANAKIA
Chairman, Kanakia Group

"WITH R CITY GHATKOPAR, WE TARGETED AN UPPER MIDDLE CLASS CLIENTELE. R CITY WAS POSITIONED AS A FASHION DESTINATION

SUBODH RUNWAL
Director, Runwal Group

sired experience and will just stop showing up. Besides upkeep, malls also need publicity and on-ground activities to draw in the crowds, arranging which becomes a common headache in case the developer has washed his hands off the project.

And Kanakia is not the only one to have made this error in judgement — DLF spent the first five years in this segment making pretty much the same mistakes, selling mall space in projects like Mega Mall and DT City Center. "We had our own steep learning curve. We learnt from our mistakes and started leasing out projects from 2006 onwards," says Pushpa Bector, senior vice-president, DLF Promenade. And now that this formula is working for the company, DLF is upping the stakes with its next project, the Mall of India property in Noida that is spread over 2 million sq ft.

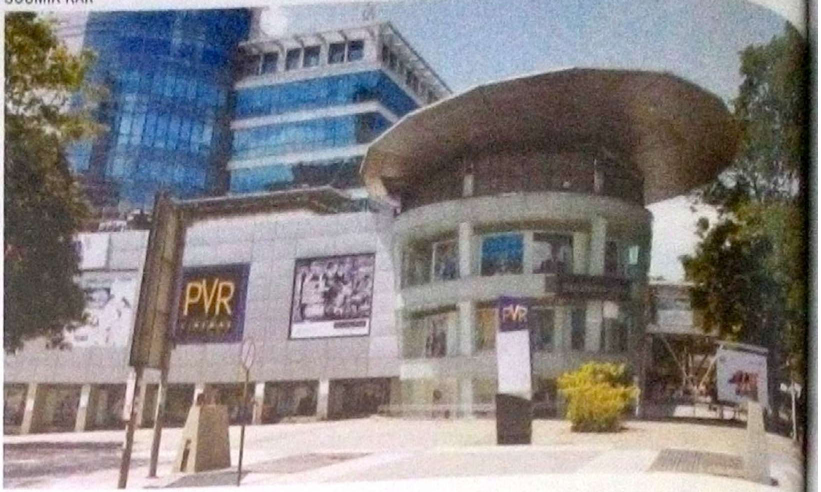
Unitech's retail head Munish Baldev, who was associated with Delhi's first mall, Ansal Plaza, and is responsible for Great India Place, Noida's most successful mall, too, says developers selling out is a cardinal mistake. "Shopping malls are like hotels. You must act like an operator, not a seller. Residential properties are a B2C business, but malls have to be run as both B2B and B2C. Both retailers and end customers must be treated as consumers," he says.

Now, while DLF is happy with its leasing model, there are developers like Omaxe who manage to strike a balance by selling space in smaller centres and leasing it out in large cities. Company president Avneet Soni thinks that the mall concept in its original form succeeds only in countries like Dubai, which are mostly driven by tourism. "That is not the case in India yet," he says.

FOOLS RUSH IN

Though other players in the segment may not agree with Soni's view, it is clear that it is the very nature and market background of these players that are responsible for their problems. Most tried to cash in on their accumulated land banks, lured by high sale prices for retail spaces. The low land prices and reasonable construction costs meant that most developers rushed in to set up projects, without putting much thought into the intent of the mall. Most had no knowledge about the basics of mall design and they didn't make an effort to learn about it. "Developers and architects who had little experience in the mall business set up structures almost overnight. That is almost like an MBBS doctor performing an open-heart surgery. This business was doomed to fail," says Susil Dungarwal, chief mall mechanic, Beyond Squarefeet.

SOUMIK KAR



THE DEVELOPERS OF NIRMAL LIFESTYLE IN MUMBAI INTEND TO DEMOLISH THE STRUCTURE

Clearly, this is not an easy business to park your money in. Avers Atul Ruia, managing director, The Phoenix Mills, an early entrant into the business and one who has done relatively well for himself, "The mall business is not a simple rental business. Malls are complicated and require strong operations even after they are opened." Ruia operates malls across Mumbai, Pune, Bengaluru and Chennai under the Phoenix Market City brand and says that the developers who fail in this business are the ones who get it wrong at the planning stage itself. "There is a science behind mall layouts, especially when it comes to aspects such as frontage or anchor tenants. If you get that wrong, there is no way you will get the business right," he adds. This business clearly calls for a lot of patience. "It takes about five years to build a mall and five more for it to settle down. So, it basically takes you a decade before you can start making money, just like in any another infrastructure business," Ruia points out.

Well-known architect Hafeez Contractor chips in with some key layout mistakes developers make when it comes to designing the mall. "We may profess adherence to global standards today but a decade ago,

" WE LEARNT FROM OUR MISTAKES AND STARTED LEASING OUT PROJECTS FROM 2006 ONWARDS

PUSHPA BECTOR
Senior vice-president, DLF Promenade

none of this mattered," he says. For instance, many developers liked the idea of a corridor with a dead end in the mall. Contractor says developers believed this meant that shoppers would walk the same stretch of the mall twice and hence the builder could add two more shops there. Then, the store height was often limited to 3 metre (against the global average of 5 metre). Contractor — who has designed malls in Mumbai, Delhi, Nagpur and Indore — says the best layout would be one that featured large ground and first floors. "People do not like to go to the third or fourth floor. Some developers take our advice, while others don't bother," says Contractor, who admits to playing along with the naïve decision of the developers.

To be honest, till the turn of the century, when mall culture actually took off in a big way in India, the format of most retail space was more or less like shopping centres. Explains Dungarwal, "It is impossible to imagine a mall that doesn't have service elevators but 90% of malls in India don't have one. There are just a handful that have loading and unloading bays." As a result, it is not uncommon for the main foyer of the mall to double up as a thoroughfare for goods to be delivered to shops. Most of this stems from the residential background of the developers, thanks to which they try to make the structure look good from the outside but ignore the layout inside.

Of course, there are several other practical aspects that developers have missed out on, including the need for adequate parking. "The global norm is five parking slots for every 1,000 sq ft," points out Dungarwal. That is a very big ask in India given the high real estate prices and developers' insistence on packing in as many stores as possible in the space available. Contrast a mall like Dubai's two decade-old Deira City Centre, which is spread over 12 lakh sq ft and boasts of 6,000 parking slots, with Hyderabad Central, which is spread over 2.25 lakh sq ft and has only 180 parking slots for cars and 750 for two-wheelers. This inability to get even the basics of mall construction right has meant that early entrants in this segment have ended up as losers, squandering the advantages of cheap land and prime location and struggling to survive as competition opened shop right next door.

“ THERE IS A SCIENCE BEHIND MALL LAYOUTS, ESPECIALLY WHEN IT COMES TO ASPECTS SUCH AS FRONTAGE OR ANCHOR TENANTS

ATUL RUIA
MD, Phoenix Mills

40
NUMBER OF MALLS THAT HAVE SHUT DOWN IN THE PAST THREE YEARS

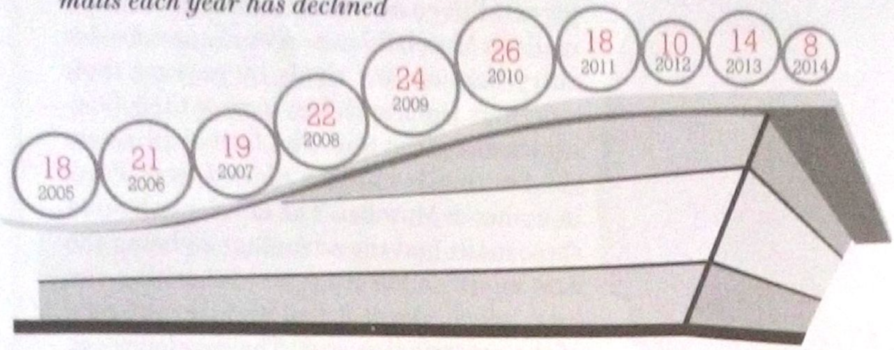
Not all first-movers have ended up as losers, though. The developers behind High Street Phoenix, Palladium and Inorbit malls in Mumbai have created considerable entry barriers for rivals by getting their moorings right and fine-tuning their businesses along the way. The former two were the first malls to come up in Lower Parel in midtown Mumbai. The developer behind these malls had the advantage of being the first-mover in the area and inheriting the land, which meant it had to only take care of the construction cost. The developer got the design, leasing arrangements, tenants and demographics right, making it a huge hit. In comparison, Atria Mall — which opened in Worli in 2006 and is around the corner from Palladium — bombed completely, with tenants moving out and the owner deciding to take the part sale route.

The case of New Delhi's MGF Metropolitan mall is peculiar. Even though it is part of the Saket mall trinity, located right next to the popular Select Citywalk, this property has failed. Harminder Sahni, MD, Wazir Advisors, says, "Even when the plot was sold, the promoters of Select Citywalk knew that three malls were going to come up here. So, from the outset, they have been very aggressive about getting all the key anchors to their mall (depriving MGF Metropolitan and DLF City Centre – the third mall in the cluster)." Sahni says, a key success factor is they have managed to churn their anchor tenants, which is where MGF has failed. There was not much left for it after Select Citywalk took all the great brands, and the developers were too late in waking up to the importance of managing a mall on daily basis. In comparison, Select Citywalk has been extremely proactive, organising regular events, engage visitors through discount schemes and resolving the retailers' problems.

That only goes to say it's not so much to do with competition as it is about how the mall has really been set-up and how it's managed. There is nothing to say that any new entrant will fail. A case in point is Thane. When Ashwin Sheth, MD, Sheth Developers, was tracking retail spaces in the area back in 2008, there were just six malls around, of which most had failed. Though accepted wisdom would have warned against open-

Going extinct

After a steep rise till 2010, the number of new malls each year has declined

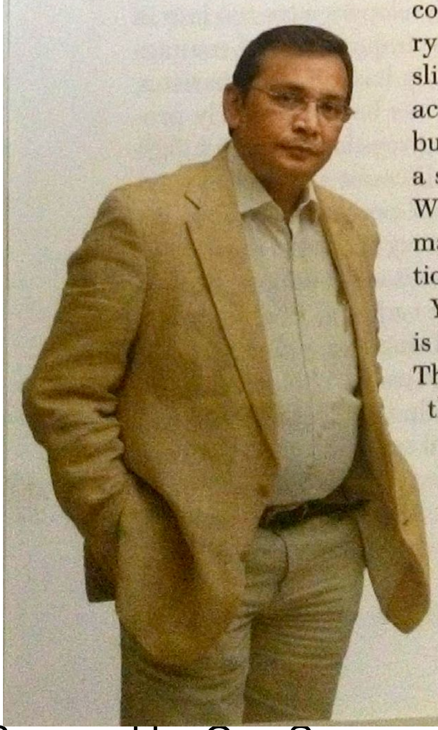


Source: Beyond Squarefeet

ing another mall, Sheth's data and surveys pointed to a significant SEC A population in the area, which was brand-conscious and willing to spend big. "Then, there were a number of aspirational brands that did not have a presence in Thane, which were willing to come on board with us," says Sheth. So, two years ago, his firm launched Viviana mall in Laxmi Nagar on the Eastern Express Highway locality of Thane. Today, the size — the mall is spread over 1 million sq ft — and assortment of brands has ensured that Viviana is a shopping destination not just for Thane residents but also crowds from Mumbai's suburbs, with a footfall of around 25,000 each day.

"THE GLOBAL NORM IS FIVE PARKING SLOTS FOR EVERY 1,000 SQ FT. INDIA IS FAR FROM THAT

SUSIL DUNGARWAL
Chief mall mechanic, Beyond Squarefeet



In fact, the catchment area analysis can also make or break a mall. Unitech's Baldev credits their scientific catchment analysis for the success of Great India Place. "We found Noida to be the perfect B or B+ town. This market falls under the mid to lowest end of premium. So we chose our brands accordingly," he says. For Unitech, the primary catchment is Noida and next come areas slightly away from Delhi. "Cities like Agra act as our tertiary catchment. We get good business from travel agents, who make it a stop for tourists," says Baldev. Worlds of Wonder, an amusement park alongside the mall, has helped them become a destination, rather than just a mall.

Yet, the success ratio in the malls business is hopelessly lopsided on the side of failure. The turbulence has ultimately resulted in the birth of ghost malls, which could eventually be turned into residential projects or be completely flattened to the ground. But most Indian mall developers have tragically missed the bus. "Very little has been done by way of mall land acquisition and most of the projects gaining form today are those dating back to 2006-07. There's hardly any fresh inventory for the 2016-21 period," says Ruia. That's actually good news given that there is no evidence to show that a finely executed project built on expensive land can be viable in a business that already has a high gestation period.

SUCCESS STORIES

When it comes to the malls business, success only has one father — the viability mix of the project. Good infrastructure and design and the developer's continued presence as owner are necessary but not sufficient for a mall's success — that comes from getting the positioning right, and by understanding the science behind malls. And some developers have benefited from paying attention to detail. Three years after finishing his MBA from Northeastern University in the US, Subodh Runwal returned to Mumbai in 1988 to take charge of his eponymous real estate group. Runwal had both, the benefit of experience and the data to back his convictions. At that time, Mumbai had exactly one mall — Crossroads — in south Mumbai and the young man's mind was working overtime about the concept. Runwal zeroed in on Mulund, a central suburb with a large middle-class population, and set up R Mall over 4 lakh sq ft of land in 2001. He got the tenant mix right according to the locality — Big Bazaar, Lifestyle and a bunch of other big names. Barring the fact that he sold space to Big Bazaar instead of leasing space out — a decision that ended up limiting his upside from rising lease rentals — he got the viability mix more or less right.

Though competition soon cropped up in the form of Nirmal Lifestyle (which later turned into an unviable investment and which its developer now intends to demolish), R Mall managed to draw footfall. And by the time there was a dip in sight, Runwal had another trick up his sleeve. About 11 km down the same LBS road off which R Mall was situated, Runwal launched another mall called R City in 2009. He says, "This time, we targeted an upper middle class clientele from neighbouring Ghatkopar and Powai. R City was positioned as a fashion destination, with stores such as Lifestyle, Shoppers Stop, Marks & Spencer, FCUK, Nike and the like, apart from electronics outlets such as Croma and a nine-screen Big Cinemas multiplex." The mall is a runaway success, poaching crowds not only from Nirmal Lifestyle down the road but also the more affluent crowd that used to shop at upmarket Phoenix in Lower Parel.

Though Runwal declined to share numbers, R City should have cost the group around ₹500 crore at the rate of ₹5,000 per sq ft for 1.3 million sq ft. Six years into the business, R City today is said to command a lease rate of ₹350 per square foot. At an occupancy level of around 95%, Runwal is currently sitting pretty. Those living in the vicinity say the mall brings in a rental income of at least ₹10 crore each month, with a hike of around 5% per annum. At a revenue of around ₹120 crore each year, Runwal should have easily recovered his investment of ₹500 crore (plus the cost of acquiring the land) over the past six years. After that, whatever comes his way by way of rent is a reward for not just holding on to the property but entering into smart leasing deals.

Another notable success has been the Prestige Group in the south. According to Suresh Singaravelu, the group's executive director, it is important to approach this business from the customer's — and not the developer's — point of view. "The quality of the mall is determined not by its best occupants but by its worst," he explains. That insight is being taken very seriously in smaller cities. Venkataramana Mavuri, managing director of Visakhapatnam's largest mall CMR Central, says he decided against getting a departmental store like Big Bazaar as an anchor tenant since he did not want the mall to be a "general bazaar". "People can buy their groceries outside, not from the mall. I wanted to house only brands with some aspirational value," he says. It took some convincing for Mavuri to finally sign up KFC for the mall, followed by Nike, Lee and Inox. Mavuri says he keeps the excitement alive by conducting on-ground activities. "We do a number of events. For examples, we fly down celebrities when their releases are near." Malls like Palladium in

55:45

THE IDEAL RATIO OF ANCHOR CLIENTS TO NON-ANCHOR CLIENTS

PHOENIX MARKET CITY

PALLADIUM HAS BEEN ABLE TO POSITION ITSELF AS AN UPMARKET DESTINATION

Mumbai and Select Citywalk in New Delhi have also been able to successfully position themselves as upmarket destination malls thanks to a selection of high-end stores.

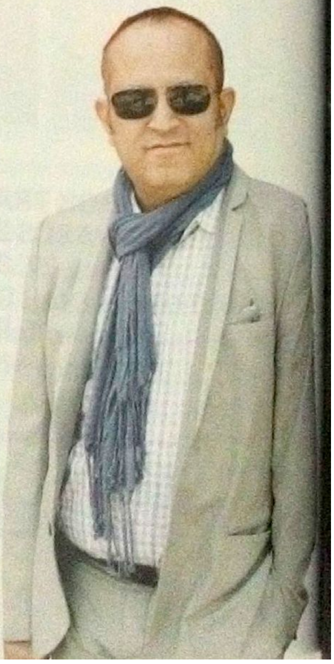
WELCOME HOME

For mall owners, this detail about the right tenants is crucial — and more important than even the customer experience. After all, it is the tenants that can turn the business profitable, depending on variables such as location. Case in point: if the mall is in an upmarket area with very high rentals, the developer can't really afford to house low-margin businesses like grocery stores. Only luxury brands that have the potential to create big sales figures on a small piece of real estate are viable at such locations. Akshaya Kumar, founder & CEO, Park Lane Property Advisors, does the math for us. The commonly accepted metric from a retailer's point of view in a mall is that no more than 10% of total sales should flow out as rent. For instance, for a late entrant at Select Citywalk who is paying ₹800 per sq ft for a 300 sq ft store (or ₹2.4 lakh), the total business generated needs to be at least 10 times its rent (or ₹24 lakh). This math would work for retailers of high-value luxury products — expensive bags, suitcases, perfumes or premium chocolate — but not for mass stores like hypermarkets.

That means, irrespective of the location and the rentals, a mall's financial prospects are really a function of how well its retail-

“SHOPPING MALLS ARE LIKE HOTELS. YOU MUST ACT LIKE AN OPERATOR, NOT A SELLER

MUNISH BALDEV
Retail head, Unitech



VITAL STATS FOR TWO OF INDIA'S MOST SUCCESSFUL MALLS

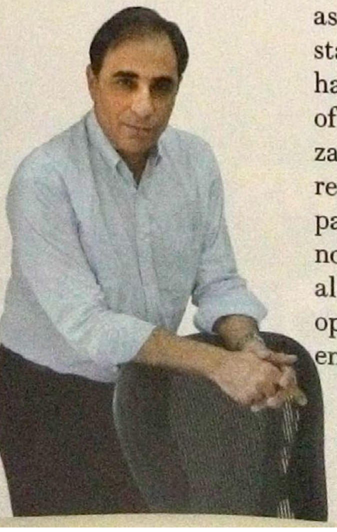
	PALLADIUM, HIGH STREET PHOENIX Lower Parel, Mumbai	SELECT CITYWALK Saket, New Delhi
YEAR OF OPENING	2001	2007
TOTAL PROJECT COST	₹450 crore	₹600 crore
POSITIONING	Luxury shopping destination	Aspirational, high-end, premium
TOTAL BUILT-UP AREA (SQ FT)	2,000,000	1,200,000
TOTAL NUMBER OF STORES (INCL. KIOSKS)	229	175
SPACE ALLOTTED FOR KEY CATEGORIES (SQ FT)	Entertainment –100,000 Food and beverage – 99,000 Food and grocery – 61,000 Fashion – 489,000	Entertainment –79,800 Food and beverage – 73,500 Food and grocery – 13,900 Fashion – 268,000
FLOOR SPACE PROPORTION	ANCHOR 25% / OTHERS 75%	ANCHOR 20% / OTHERS 80%
AVERAGE FOOTFALL ON WEEKDAYS	60,000	40,000-45,000
AVERAGE FOOTFALL ON WEEKENDS	100,000	60,000-70,000
RENTALS PER MONTH FOR A NEW TENANT	₹700-800	₹700-800

Source: Malls of India report, 6th edition, 2013-16, Industry

ers are doing. Amit Jatia, vice-chairman, Hardcastle Restaurants, the company that runs the McDonald's franchise in south and west India, makes his point very clear. "A mall is only as good as its retailers. If a retailer is successful, the mall is successful," he says. Mall presence is critical to a company like McDonald's, so it's not surprising that it is the anchor tenant in 90% of the malls where it has a presence (the chain is present in 80% of the malls across India and has 202 outlets in these two regions). But this also boils down to how smartly the developer and the retailer negotiate the deal. Much of the power equation between mall owners and occupants changed dramatically after the 2008 financial crisis; till then, mall owners had a say in almost everything. The real estate slowdown compelled realtors to go in for a revenue-sharing model — one that is well established globally — as retailers could not afford the high fixed costs. "Prior to 2008, there were huge arguments between mall owners and tenants. Owners thought that the potential in the business was huge, while we retailers were quite conservative. The lines between the two parties converged after 2008 and from then on, there has been a huge improvement in the relationship," says Kabir Lumba, MD, Lifestyle International. Today, retailers have understood the importance of anchor tenants and mall owners actively pitch in to host events to bring in crowds.

"WE MAY PROFESS ADHERENCE TO GLOBAL STANDARDS TODAY BUT A DECADE AGO, NONE OF THIS MATTERED

HAFEEZ CONTRACTOR
Architect



Even though they pocket the more lucrative deals, larger malls often house several anchor tenants; for instance, Big Bazaar pays a rent of ₹70-80 per sq ft at some of Pune's less popular malls, against the prevailing rate of ₹150. Other advantages include a retailer loading factor (what is lost as common area) as low as 10% against the standard 50%. If the developer and tenant have struck a revenue-sharing deal instead of a rent agreement, a retailer like Big Bazaar or Hypercity would pay about 3-5% of revenue to the mall owner; F&B units would pay 14-20%, while QSRs like KFC would pay no more than 6-7%. The tenure of the leases also varies across clients so that the developer has the freedom to bring in new clients at regular intervals. As for the success of anchor tenants, experts say too many anchor tenants may also be a risky proposition for the developer; a 55:45 proportion seems to be the sweet spot. "About 70% of our occupants are anchor tenants and that is not very healthy. But we had very little choice given the size of the mall," says Viviana's Sheth. Given the large number of anchor tenants (160 of a total 230), the mall has tried to be innovative by getting retailers to not open an outlet within a 5-km radius. "So far, we have had an occupancy rate of 99%," adds Sheth.

Within the framework of a viability mix, experts say that at most malls, food and beverages account for 15% of the mall area and entertainment (multiplexes and the kids' section) another 10%, while segments such as fashion, department stores and electronics account for the rest. This proportion could vary, based on the catchment area. Then again, given how film-crazy folks in this part of the country are, Mavuri, owner of Visakhapatnam's CMR Central mall, says that a multiplex was crucial. "The footfall drops by at least 35% when our Inox multiplex is shut. It also drives the food and beverage business," he says. And it works both ways. "Given the high retail costs in India, malls are a good option for us," says Sanjeev Bijli, joint managing director, PVR, 98% of whose properties are at malls.

Lumba of Lifestyle, too, emphasises the importance of the viability mix. "The viability mix is hugely important to us. A mall is good for five years if its infrastructure is right. But if its tenancy mix is right, it will get it right for 20 years," he says.

ON THE RIGHT TRACK?

If the malls business sounds like a whole bunch of hits and misses, that is pretty much what the scene looks like today. With developers learning a financial lesson the hard way, there are not many success stories to take inspiration from. But Runwal insists that the mall business can be very lucrative in the long run if you get your strategy right. He — and many others — believe that the rental returns in retail can outstrip return on residential projects in the long term. If in its initial years the mall manages to establish its brand with the help of good tenants, the developer can use the same brand equity to command a higher price in future. Case in point: a new tenant will have to pay ₹800 per sq ft (if space is available in the first place) for an 800 sq ft ground floor shop at Select Citywalk, New Delhi, up 50% from five years ago.

"IF IT TOOK FIVE YEARS TO RECOVER THE INVESTMENT A DECADE AGO, IT WILL TAKE TEN YEARS TODAY

KISHORE BHATIJA
MD & CEO, Inorbit Malls

Today, barring big multiplexes, most lease deals are negotiated for nine-10 years, which means that mall owners can profit significantly from the upside if the mall attracts the necessary footfall. On the expenditure side, the mall owner only has to foot the refurbishment cost for the common area, which is minimal. Globally, malls have been leased out for 25-year periods and have made handsome returns. But that is easier said than done, says Kishore Bhatija, CEO, Inorbit Mall. "The cost of acquiring land has increased by at least four times over the last decade. If the time taken to recover the investment was five years a decade ago, one can safely assume it will take ten years today," explains Bhatija, whose company owns six properties across Mumbai, Vadodara, Pune, Hyderabad and Bengaluru. Unfortunately, rentals have not kept pace with this change.

However, according to Bhatija, rentals are not a function of real estate prices. "They are actually a function of retail, which has transformed greatly. Our customers have travelled extensively and they want the malls here to look like the ones in Dubai, which is an extremely difficult task for us," he says. Inorbit's first mall was set up in the western Mumbai suburb of Malad, followed by expansion to other cities. "It is expensive to open malls in tier 1 cities, which is why we moved to Vadodara in 2013. Now, we are witnessing an oversupply in smaller centres like Raipur as well," he says, when asked how much the business has changed. Inorbit is up against big players like Phoenix in Whitefield in Bangalore, a place that has gained the reputation of being over-malled. While Bhatija agrees with that viewpoint, he is quick to say that there is a significant business upside. "This is a huge catchment area of consumers with a big per capita spend. One cannot ignore that," he says.

While Bhatija admits that Inorbit had significant gains thanks to its first-mover advantage, he adds, "It matters only when one gets it right." With experience comes the

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Joint MD, PVR

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MD, Lifestyle International

learning that every city or suburb can accommodate only a certain number of malls. While there is no scientific way of estimating how many, the parameters include the number of spending consumers and the potential catchment area. With a 1-million population, Coimbatore has only two malls, with another expected to join the bandwagon soon. Ashwin Balasubramaniam, chief operating officer, Brookfields Mall, says Coimbatore can at best accommodate two malls, adding that residential projects make for a safer bet. The retail business, Balasubramaniam adds, is in a state of flux, with the future looking very uncertain. “There are no bookstores in most malls today and even large electronic brands have gone in for downsized versions. Cell phone retailers, too, are a dwindling breed,” he says.

For now, mall developers need to get used to a new way of working, which will hopefully result in more customers walk-ins. Some of them are already reinventing themselves. In fact, they are going as far as to not call their malls, malls. Omaxe Connaught Place was planned as a 1 million sq ft mall in Greater Noida, but has since been converted into India's largest indoor theme park. “We don't call ourselves a mall now. We are a theme park. The retail is only complementary,” says its president Soni. After a delay of two-three years, the project is slated to finally open up this year. Of the 1 million sq ft intended for the mall, 2.5 lakh sq ft has been allotted to the theme park. Inside, a chocolate factory, dinosaur park, Amazon jungle with robotic animals and a mini Taj Mahal (a fifth of the original in size) are coming up.

10%
ANNUAL RENTAL YIELDS THAT CAN BE EXPECTED FROM A RETAIL PROPERTY

DLF is doing pretty much the same thing with its big boy, Mall of India (MoI). At 2 mn sq ft, it is going to be India's largest mall. “We will be promoting it as a destination. It's going to have six floors, and each one is going to be a mall in itself. Two levels, i.e., 6 lakh sq ft is reserved only for leisure. The activities include indoor cricket, bowling, and an abridged version of Dubai's ski trail,” shares Pushpa Bector of DLF.

DLF has learnt another lesson. “In our earlier projects, we starting leasing out space five years before commencing mall operations, but with MoI, we waited. Leasing was deliberately done two years before the opening, to keep things fresh and new,” she says. Bector says MoI, which will be opening this year, will be successful, even though it sits next to a thriving mall. “We are more close to Delhi, being at the mouth of Noida. Ninety per cent of our leasing is already done. From a sustenance point of view, we think we have the right model. We are expecting a rental income of ₹200 crore annually,” she adds.

While tilting towards entertainment might be a good strategy, for malls to succeed as shopping destinations, they will need to take a leaf out of the success of experiments like the Dubai Mall, where the rent is nominal and the money is made through revenue-sharing. The problem with that model is that real estate prices in India are fairly high and that makes residential and commercial projects more appealing than the retail space — with all its ongoing challenges — for developers. If lack of experience contributed to the failure of developers, the exuberance around the India growth story contributed in no small measure to the disasters. When malls started coming up around the mid-2000s and people began to mill at these places just out of curiosity and to meet, developers and retailers simply assumed that crowds were guaranteed. And even if the crowds did not translate into sales, the high footfall would translate into spending sooner or later. That assumption has proved to be costly for them.

Retail is indeed a challenging business, what with its long gestation period, and things are only going to get trickier thanks to high land prices and the rise of e-commerce. Going forward, the only kind of malls that will succeed will be those that offer a great social experience — sheer shopping pleasure, movies, food and all-around entertainment. While retailers themselves are in a phase where they are discovering what kind of formats work for them, malls will have to work even harder to ensure future financial success.