

Retail realty shows signs of revival amid concern over glut

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Bangalore: The retail end of the real estate business is showing some signs of a pickup in Mumbai, the National Capital Region (NCR) and Bangalore, with more than half the upcoming supply of shop and mall space proposed in these locations.

There are concerns over a looming glut, however. Comprising the worst-hit part of the industry, retail has been lagging behind residential and commercial property.

Much of the supply is a spillover from 2008 and 2009, and is expected to lead to an oversupply of 21 million sq. ft in two years, thanks to the faster pace of development in 2010-12, said *India Organized Retail Market*, a report based on a seven-city study by property advisory Knight Frank India Pvt. Ltd. The cities covered are Delhi-NCR, Mumbai and Navi Mumbai, Bangalore, Chennai, Hyderabad, Pune and Kolkata.



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“Though the outlook looks positive, developers should treat the supply indicators as a word of

caution because most locations such as NCR and Pune will face over-supply and already have high vacancy rates,” said Samantak Das, national head (research) at Knight Frank India.

In the last two years, NCR (comprising Delhi and its suburbs such as Gurgaon, Noida and Faridabad) and Bangalore have seen the maximum rental corrections to the tune of 25% whereas Mumbai saw an average drop of 15-20%. During this period, zero-rental schemes and revenue-sharing models with a minimum guarantee emerged as options for trimming costs and maintaining mall occupancy.

More such convenient models will emerge to facilitate both retailers and developers, said Das.

One of the predominant trends going forward will be the mixed-use model replacing pure retail plays. Many new developments, particularly in the NCR, have been combined with office space or even hospitality, primarily as a risk-mitigation step, the report said.

“We see value retail, particular in the food and beverages segment, which currently occupies not more than 2% of the total organized retail share, to witness growth up to 10% in the coming years,” Das said.

Lease rental rates have started climbing, with a 15-20% rise in Gurgaon and Noida, and 10-15% in micromarkets in Mumbai.

Mantri Square, India’s largest mall that is located in Bangalore, opened in March with a 90% occupancy rate and has a revenue-sharing model.

To be sure, vacancy rates, particularly in shopping malls, still remain high. Nearly eight million sq. ft, or 20% of mall space, is currently vacant and the worry is that around 55 million sq. ft of space will be added by 2012, more than doubling the current 41 million to 95 million sq. ft of organized retail development.

According to the report, NCR has the highest vacancy rates at 25%, followed by 23% in Pune and 20% in Mumbai.

There is also concern about markets such as Kolkata, Pune and Hyderabad, which haven’t seen great movement, and where pressure on rentals and vacancy rates still remain high.

“The good part is that developers are still relooking at their growth strategies to avoid further mistakes,” said Susil Dungarwal, chief executive of Beyond Squarefeet Advisory Pvt. Ltd, a retail advisory.

Some of the deferred launches that are coming up soon include the second phases of Nirmal Lifestyle and R Mall, both in central Mumbai, and the Express Avenue Mall in Chennai, Dungarwal said.