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Saturation point

By D Govardan Jan 14 2015
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To beat stagnation in the metros, leading mall developers are moving to tier 2 and 3 cities



Organised retail, once the favourite of lucky denizens living in metro cities, is fast expanding into India's hinterland. Over the last couple of years, leading mall developers, both national and global, after studying increasing consumer aspirations in these smaller cities and utterly frustrated by stagnation and higher saturation levels for malls in glitzier metros, have been left with no option.

Mall developers are eying tier 2 and 3 cities. If increasing aspirations of consumers are driving brands to those regions into India's non-metro areas, the low cost of real estate and newer options are proving to be attractive for mall developers.

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“Currently, tier 2 and 3 cities account for a smaller proportion of operational shopping malls in India. However, with rising consumer aspirations and demand, the potential of these cities in terms of retail real estate is increasing,” says Shubhranshu Pani, regional director – retail services, JLL India.

According to him, both national and international retailers are expanding businesses in these cities, fuelling demand for organised shopping spaces. “While the major metro cities are continuing to launch bigger, international standard malls, tier 2 and 3 cities are currently graduating to the next level by initiating mall development of their own,” Pani points out.

He says the potential for organised retail in metros is fast reaching saturation point. Naturally, the next phase of retail real estate growth will happen in these smaller cities. In particular, it will be driven by cost advantages in terms of lower land prices and therefore rentals.

In addition, peoples’ exposure to ecommerce in smaller cities has helped them get a better appreciation of latest fashion and brands.

There is only one way up from here: larger acceptability of newer shopping centres as well as retail and fashion brands, will attract companies.

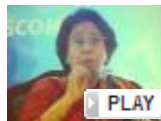
“Both developers and retailers are targeting these untapped markets to gain first-mover advantage. Retail activity is also widening in these tertiary cities due to increase in consumer purchasing power and there is tremendous growth potential for shopping malls,” explains Pani.

It is no empty talk. Some of the notable quality mall developments that have come up in north India’s tier 2 and 3 cities over the last couple of years include Trillium in Amritsar, North Country Mall in Mohali, Elante in Chandigarh and MBD Neopolis Mall in Ludhiana. There are many others, spread evenly across other cities and regions.

These cities offer favourable opportunities to both mall developers and retailers, not just in terms of lower land cost and rentals, but also keeping in



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view rising consumerism, brand awareness and aspiration. “However, it is still early days for organised retail development in these cities. It will take a few years more for deeper penetration and retail real estate to mature, as these tertiary regions still lag behind on many parametres and are not free of challenges,” Pani cautions.

“The process of malls and retailers moving into smaller cities has created enough visibility. A lot of malls have come up and many more are on the way. With the supply and demand scenario nearly stagnating in big cities, developers are looking at smaller cities, where availability of land is easier and prices cheap,” says Susil S Dunganwal, chief mall mechanic, Beyond Squarefeet Advisory Pvt Ltd, India’s first boutique advisory company, which specialises in end-to-end services in mall management, offering the entire spectrum of services. “It is a win-win situation for all and obviously consumers will be the biggest beneficiaries,” he says.

In Tamil Nadu alone, over the past 3-4 years, several malls have come up in tier 2 and 3 cities like Coimbatore, Salem and Madurai. Even smaller Vellore, Arcot and Ambur are fast catching up and in due course, are certain to have their share of malls.

To be sure, strategy has to change, depending upon the region and city. For instance, if one considers the case of two malls in Chennai – Citicentre and Express Avenue - the positioning and the profile of customers visiting them are different. Again in Chennai, the Phoenix Market City at Velachery has a different strategy and approach to retail as well as to attract customers.

“Unlike in a few other industries, the cut, copy, paste approach cannot and will not work in the case of malls and it depends on a lot of other factors, including catchment areas and the local culture,” points out Dunganwal. However, developers have to be wary of customer purchase behaviour, which needs careful examination.

In addition there are the usual urban development issues, which influence purchase outcomes. Finding a proper parking space, for instance. Or accessibility. If not planned properly, whatever be the location, malls will



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Dungarwal predicts that multiplexes and hypermarkets will drive demand. “As for the developers, the return on investment from a mall in a small city will be higher than the bigger cities. This is sure to make it a lucrative opportunity. ”

Most agree with this prognosis. “Yes, it is a good trend that developers are now looking towards tier 2 and 3 cities for mall development. However, many factors will come into play. The biggest challenge is to keep the operational cost of the mall at the lower end, while at the same time not compromising on quality services to be provided in the mall,” states Anil Mithas, CMD, Unnati Fortune Group.

He adds: “The other challenge is to get the right mix of tenants for the mall. Big brands may not like to go to tier 2 and 3 cities and hence there has to be a mix of local and high rent paying brands.”

Mithas believes this is the right time to move. “The time is right to move to smaller towns as brands will follow, once they realise their potential. It will be a win-win situation for the first mover, since that mall will be recognised instantly and will become the landmark in those cities. However, one has to constantly work towards keeping the brand of the mall intact by continuously innovating with the offerings inside the mall premises,” Mithas added.

There is much that retailers see not only in these small cities, but also in areas closer to larger cities. “Outside the city limits, suburbs are developing fast. People are moving to suburbs and utilities like retail have to be where the customers are. The growth of suburbs will continue for the next ten years or so and this will lead to the expansion of each metro within a radius of 100 km,” says Vasanth Kumar, executive director of Max Retail.

According to Kumar Rajagopalan, CEO of Retailers Association of India, smaller cities and towns are fast evolving to embrace modern retail.

“Customers in these cities have money and through media, their awareness

levels about brands is increasing. Malls have already caught up in tier 2 cities and retailers – both national and global – are keen to explore these cities,” he said.

There is also the contrarian view. Vasanth Kumar believes tier 3 cities are not yet ready for malls. “High streets come first and a mall, which is much more of organised space, comes next. Tier 3 cities have high streets but the malls will take another 10 years. The services industry, which is a main driver for consumption, has still not caught up in these places. And despite lower costs, customer affordability levels are lower. ”

Rajagopalan sees an opportunity of developing “planned and organised” retail spaces in tier 2 and 3 cities. “Real estate players, retail brands and the local governments have to sit and plan to develop retail spaces efficiently. A good high street with all the amenities can be developed in tier 3 cities if all stakeholders do the necessary planning. Like SEZs, retail and entertainment zones can be developed. We have been talking to several state governments and among them Andhra Pradesh, Telangana and Maharashtra are willing to work with the industry in the planning process. For the government, retail is a provider of employment and tax revenue,” he said. Development of smart cities too is going to open up retail real estate.

The emergence of e-commerce can also be beneficial for the development of retail real estate in smaller cities. “In the short-term, when e-commerce has taken to deep discounting, brick and mortar retailers are getting hurt. But in the long-term it is going to be beneficial. Once people get hooked to brands, not just e-commerce, brick and mortar players too will benefit,’ reasons Rajagopalan.

Retailers are also looking at the omni-channel model, where it becomes necessary for brands to have offline and online presence. With increasing aspirations, the sky is the limit, it would appear.

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(With inputs from Sangeetha G)