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The Economics Of Mall Investment

Shopping malls are a great investment in the long term. Here we differentiate between short-sighted and long-sighted growth.

Many things go into the making of a successful shopping centre – the right location, the ideal timeline, the best project planning, a great tenant mix, good management and the right owner. Experts say that the malls are profitable investments provided they are given the right amount of time.

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- Bill Terry quotes [More](#)

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The Economics Of Mall Investment

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Deep Kantawala,
Group CFO, ICS Group

Deep Kantawala, Group Chief Financial officer, ICS Group, says, “The economics of shopping centre business are quite different compared to other asset classes, such as a residential development. Malls are assets that have a longer gestation period, but they deliver superior returns when compared to other asset classes.”

The gestation period often varies depending on the type of the asset that has been created and may vary with each project. Shashikala Venkatraman, MD, India, Sq. Ft Consulting says, “The cost of land is the critical factor driving the payback period for a mall in India. And often the land prices make the project quite untenable. The borrowing costs have also gone up significantly in recent years. While in the early years of mall development in India malls could become profitable from year three or four, today payback periods have become significantly longer. Typically, regional and super-regional malls would have a payback period of eight to 10 years.”

Developers with a long-term perspective are aware that a good retail asset typically takes about three to four years to stabilise. It is only after that that it delivers any results.

There are many other factors at play, in India and elsewhere. Experts cite the example of cost of building a mall in a Tier II city compared to that of building one in a Metro. Often, developer expectation can make the task more difficult than it needs to be.

When it comes to years, countries have different timelines. Says Venkatraman, “In fact, turnaround times and payback periods are even longer internationally as size of malls are bigger and the investments are higher. In Gulf countries, which have been in the forefront of mall development over the last decade or so, the payback periods are over 10 years for regional malls. In Europe, the payback could be even longer as the development period is significantly greater because the planning permissions themselves often take a very long time.”

For an investor, however, profitability may not necessarily depend upon the type or size of the mall. “When we look at viability, one looks at the investment versus returns. So, in the case of small neighbourhood centre, while the income and growth may be measured, the fact is that the relative investment is also low. Again, if such a centre is ideally located in an existing or captive catchment, then the relative risk is also lower. In contrast, destination centres potentially can generate higher income and growth, but these are generally planned in outskirts or newer areas and thus have higher risk of stabilization,” says Kantawala.

India is now part of an international market. Even so, regional realities apply and there is much crossover talent in the form of mall managers with international experience.



Shashikala Venkatraman,
MD, India, Sq. Ft Consulting



Ian Watt, Director,
Pioneer Property Zone

Ian Watt, Director, Pioneer Property Zone, says, "The reality is that rentals are a product of achievable retail sales which are generated by the number of visitors and their spend per person. More often than not the owner sets a rent level that is based on the perceived value of the land plus the cost of the construction. In many instances the owner will overdevelop a site just to maximise the FSI available but fails to understand that the higher you build retail space the lower the rental value. It is more important to understand the sales turnover that can be expected from a location and then build the appropriate size mall at the appropriate cost that allows the retailer to pay a rental that is in line with the sales they can achieve."

There is no doubt that profit is associated with how successful a mall is. The best managers and officials are aware that a successful mall does not just drive footfall but actually promises returns to everyone in the value chain. Paresh Mishra, CEO Malls, Runwal Group, Mumbai, says, "A shopping centre is first an economic entity that is expected to render returns to the investor. Return on investment is defined as the net income divided by the capital investment, expressed as percentage. In the case of shopping centre investment, the detailed calculation of net income is total rental income less operational expenses, such as property rates, security, cleaning, insurance and maintenance."

However, much before it is profitable, a mall needs to pay for itself. "There is no specific time period when a mall can be self-sufficient, because the inflow of income depends of various factors like shoppers' satisfaction, loyalty, and word of mouth," Mishra says.

Watt says that depending on the size and the location of the mall, "if the mall opens with low vacancies of less than 10 per cent and with a good CAM structure in place, it should become self-sufficient from the second year onwards."

Kantawala agrees but maintains that "in India one has seen that typical mall projects are launched with 65 per cent to 70 per cent occupancy, so it may take about 12 to 18 months for the mall to be self-reliant."

Once it's up on its feet and running, the success of the mall depends on the management. Short-sighted management or misplaced expectation by the owners can drive away profitability. Says Mishra, "Often developers concentrate on achieving maximum development profit upfront at the expense of long term ease of management and resultant long term profitability."

It's a lesson many have learnt very well. The owner who may not be the manager also has a role to play in how profitable the centre is. Says Kantawala, "The slowdown in the last few years has made the developers fraternity better appreciate the value add of this very critical function. For developers who are not managers, they need to ensure that the product they create is correctly sized, designed efficiently not just from a leasing perspective but also from an operations point of view. Once the mall is created, the best bet would be to appoint a professional outfit to manage the centre with clear deliverables in terms of generating incremental footfalls/ business to the tenants. This ensures that there is complete alignment of objective between the mall owner, the tenants and the mall management company."



Paresh Mishra,
CEO Malls, Runwal Group

"It is not your customer's job to remember you. It is your obligation and responsibility to make sure they don't have the chance to forget you."

- Patricia Fripp





SHOPPER TALK

Many Needs, Many Malls

Mature shoppers say that one mall is no longer enough for all their needs

A day spent leisurely at a neighbourhood centre, taking guests to a faraway shopping destination or spending a day at a hypermarket anchor store; mature shoppers are no longer content with one mall in their catchment.

"I can spend hours at the tiny destination mall near my house, but I also like to plan weekly shopping at the mall at some distance where the hypermarket has good rates," says Mumbai resident Ketaki Raje.

"When guests come, we invariably end up going to a mall which combines the best of shopping with entertainment. One mall is no longer enough for our needs," she says, adding that she is used to the same experience as an NRI who has recently returned after years spent in the Gulf.



For her friend in Pune, the same is true. "We used to go mall walking early in the morning, sometimes stop at nice cafés for breakfast before going to work. I miss that sometimes. There is certainly room in my locality for a nice, neat, neighbourhood centre which does not need to be crowded since it is targeted at just the right segment," says Madhavi Sen.

For Nasik resident, Preeti Juneja, malls are a heaven-send. "I like the ones in Nasik because they have changed the way we shop and entertain. But even so, a trip to Mumbai is not complete without visits to some of our favourite malls. We now know where we want to go just to catch a movie; where we will get good deals and which centre is perfect for a day with children," she says.

For neighbourhood centres to appeal, shoppers say that boutique or small format stores with a combination of utilities work best.

"These are shops that we would not usually come across. Some are small retailers; some others are global brands that work best for our demographic. The best thing about our neighbourhood centre is that it combines these with utilities. I stop by just to withdraw cash from the ATM, then end up checking out some shoes or something at a sale," says Mumbai resident Geeta Shah.

Shoppers say that malls are increasingly important for their community. "We have found that in some cases even schools are happy to use them for a day's outing. Malls are no longer merely shopping destinations. For us, the mall is where you will be in the evening, looking for a clean outing. As it is the case abroad, if there are more entertainment options or focused events, it may be even better," says Raje.

Many shoppers say that it is common for them to visit all the different malls in their neighbourhood in any given month. "We find ourselves going to the mall in the evening since it is only walking distance from our home. On weekends or some weekdays, if we want to avoid crowds, we venture a little far, to a larger mall where there are more options," says Shah.

Juneja agrees that now is the time for malls to get more adventurous. She says, "Big cities already have the malls that they need. I think it's time that smaller cities catch up with them. There is only so much that you can do with one mall. Clearly, there is room for more."

The right mall, say shoppers, is the one that will fulfil a need at the time.



INDUSTRY TALK

Deep Kantawala, Group Chief Financial officer, ICS Group on “The key to a mall's success lies in its location, design and mall management”

It is said in jest that the key to the success of a retail asset are the three Ls – Location, Location, and Location! But, while location does play an important role, other factors which contribute to the success are functional design, right tenant mix, efficient sizing and proactive management of the centre.

The last factor, which is mall management entails, among other things, proactive monitoring and management of the tenant mix, marketing and promoting the centre and introducing new concepts particularly entertainment options via events.

This actually can be the differentiator or the catalyst in even turning around properties which might not have ideal combination of the other factors mentioned earlier. The consumer wants freshness and change, so this becomes critical even for successful centres else they carry the risk of ending up as a convenience mall rather than a destination centre which attracts huge crowds and generates incremental business.



Deep Kantawala,
Group CFO, ICS Group

Paresh Mishra CEO Malls, Runwal Group, Mumbai on “the importance of concentration on long term profitability”



Paresh Mishra,
CEO Malls, Runwal Group

Centres are often managed and maintained by organizations that are not involved in the project and development stage. Often developers concentrate on achieving maximum development profit upfront at the expense of long term ease of management and resultant long term profitability.

Earlier the calibre of traditional shopping centre managers was such that they did not have the status or ability and were consequently not provided with a forum to address design shortcomings with the result that the mistakes or inadequacies of the past were continuously being repeated.

Losses are greater in troubled shopping centres and malls largely because the properties can't be easily turned around once they begin to slide. Often, when a mall starts to lose shoppers, major tenants such as department stores, begin leaving. After that, the property's other tenants often demand rent concessions or lease terminations, further sapping the mall's cash flow. Unlike properties such as hotels or office buildings, such declines often are irreversible.

“Every sale has five basic obstacles: no need, no money, no hurry, no desire, no trust.”

- Zig Ziglar





TRADE TALK

Cherishing Moments Sets Up Second Kiosk

Customised souvenir provider Cherishing Moments has opened its second kiosk in the country at Delhi's Select CityWalk. The 100 sq. ft. kiosk deals in products such as wax hands, baby memory prints, designer candles and body copy. Visitors can take home memories of hands and feet of their loved ones via wax replicas or prints. The concept was first introduced a couple of months ago at AlphaOne Mall, Ahmedabad.

According to the company, an individual kiosk draws an investment of Rs.8 Lakh to Rs. 10 Lakh. The company plans to open one more kiosk by the end of this financial year and eight more in the next fiscal at malls around the country.

The products at the kiosk are priced between Rs 40 and Rs 2,500.



Lulu Kochi Set For March Opening



Lulu, the UAE-based retail group's first shopping mall, set up at an investment of Rs. 16 Billion, in Kochi, is scheduled to open this March.

The mall, in the Edapally area of Kochi, covers 17 acres and includes an ice rink, multiplex cinema, restaurants, a Lulu hypermarket and a bowling alley. A Marriott hotel is a part of the complex.

India's fourth-largest mall is expected to create direct employment for about 8,000 people.

Emke Group, with Yusuff Ali as its managing director, is also known as the LuLu Group. Lulu Hypermarkets is one of its divisions founded by MK Abdulla in Abu Dhabi more than four decades ago. The group is aiming to expand its presence in India with plans to invest of Rs. 40 Billion over the next couple of years.

H&M, Topshop In Final India Retail Push

News reports say that the world's second largest fashion retailer, Swedish fast-fashion giant Hennes & Mauritz (H&M) may be finalising India plans for its initial stores. H&M's chief executive Karl-Johan Persson, has already announced the company's India plans at a quarterly results meeting, saying that they would enter India on their own, and are ready to meet 30% local sourcing norms.

British brand, Topshop is another foreign retailer finalizing plans to enter the country through a local joint venture. Officials have told local media that they are speaking with many partners but nothing is confirmed.



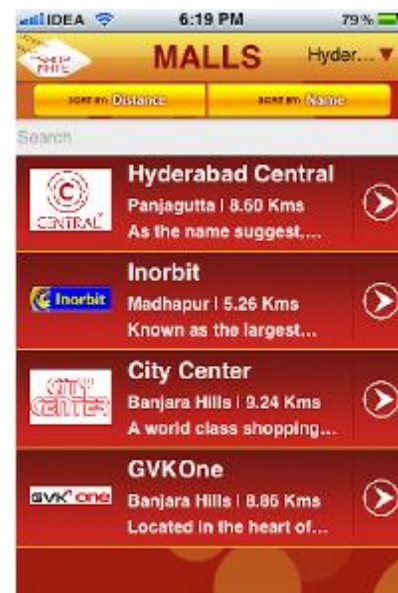
An App For Shopping Malls

Hyderabad based start-up Smart Edge has introduced MyShopMate – a geo-location based mobile application especially designed for mall shoppers and malls.

MyShopMate is a free mobile app on Android, iPhone and Blackberry platforms. It enables shoppers to explore their favourite malls by checking out latest offers and events. They can also find out general information on brands, store locations and restaurants in those malls.

With increasing smartphone penetration in India, MyShopMate can change the way people shop and marketers communicate to their target audiences. After adoption of Facebook and online search as marketing channels, innovative applications will bring the next level of engagement.

MyShopMate has already partnered with some premier malls in Hyderabad, NCR, Mumbai and Bangalore. The initial roll out of MyShopMate caters to shoppers in Hyderabad and in next couple of months it will be rapidly rolled out for the Mumbai, Delhi and Bangalore markets. By end of next year, it will expand to other Tier I & II cities.



Mangalore Mall Goes Wi-Fi



The City Centre Mall in Mangalore has become the first mall in the state to go completely Wi-Fi. Bharti Airtel, which on Saturday launched its WIFI hotspot zone at the mall, aims to provide high-speed internet at locations such as cafés, restaurants, hotels and other public areas, such as hospitals and educational institutions where customers can connect by using a variety of devices such as laptops, smartphones, tablets and other smart devices.

With one access point supporting 30 users spread across a range of 100-150 feet indoors, and up to 300 feet outdoors, the technology is now being made available for a larger audience. Company officials announced that Udupi and Manipal will follow in being Wi-Fi enabled.

The Wi-Fi hotspot provides the user with 2 mbps speed and all retail partners have been provided admin access. Currently, about 100 retail outlets in the city have been covered. The aim is to reach a target of 300 outlets by March 2013.

"I love shopping. There is a little bit of magic found in buying something new. It is instant gratification, a quick fix."

- Rebecca Bloom

