

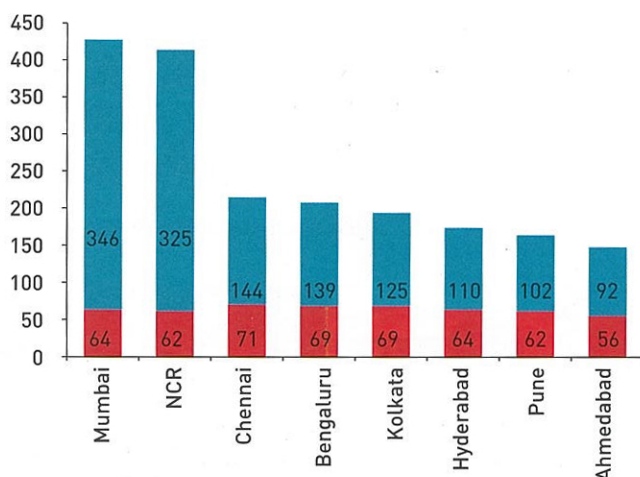


# RENTAL TRENDS IN MALLS

Rentals in malls have been on the upswing over the last couple of years. The reasons for this sharp rise have been many, and not just restricted to a rise in costs. Let's take a peek into the current trends in the mall rental space and analyse the factors leading to the rise in rent costs

BY AMIT BAGARIA

AVERAGE MALL RENTALS IN JULY 2013  
(in per sq.ft. of carpet area per month; Low & High)



The development cost, which includes the cost of construction, consultant costs, approval costs, and interest during the construction period, of a new mall in India, with decent level of premium finishes, has more than doubled in the last five years. From about ₹ 2,000 per sq.ft. of built-up area (excluding basements, and referred to as GFA in most countries) or ₹ 2,940 on carpet area (referred to as GLA in most countries), it has jumped to more than ₹ 4,250 per sq.ft. of built-up area and ₹ 6,250 on carpet area, respectively.

With the addition of floor area ratio (FAR) or floor space index (FSI) cost, which refers to the ratio of square footage allowed to be built above ground on every square foot of land, a new mall today, assuming it will open in the 2014 calendar year, will require a total investment of ₹ 5,500–12,000 per sq.ft. of built-up area (₹ 8,085–17,640 on carpet area). However, this does not include most of the

island city of Mumbai, where the FAR or FSI costs are much higher.

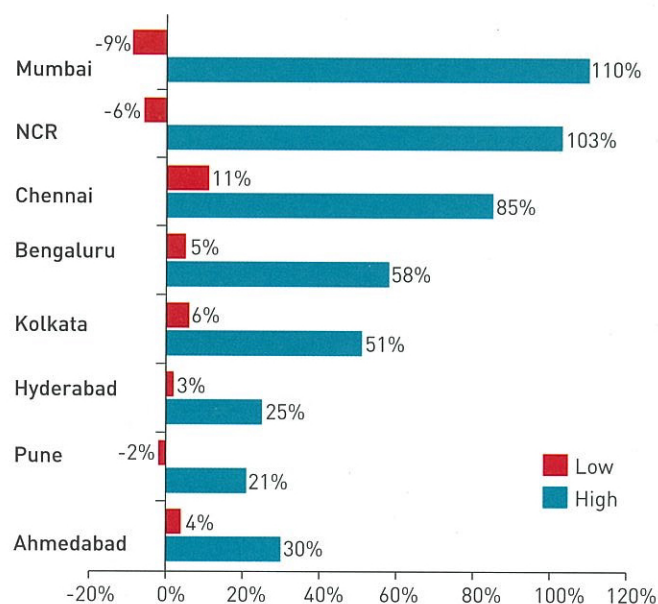
Considering these figures, what are the income levels and the return on investment that a developer or investor can expect? Have the rentals also kept pace with the rise in costs? Here, we will take a close look at rental trends across the malls in India.

For the purpose of this article, "luxury" retail centres, such as DLF Emporio (Delhi), Grand Hyatt Plaza (Mumbai), and UB City (Bengaluru), have been excluded. All rentals are based on carpet area for easier comparison with international norms, as Indian leasable areas (often referred to as super built-up areas) include a "loading" factor to apportion common areas.

As the chart suggests, the current average rentals in India's eight largest malls in metropolitan regions – Greater Mumbai, National Capital Region (NCR), Bengaluru, Kolkata, Greater Hyderabad, Chennai, Ahmedabad, and Pune – range from ₹ 56



CHANGE IN MALL RENTALS IN THE LAST FIVE YEARS



sq.ft. (₹ 7,233 sq.m. per annum) to ₹ 346 per sq.ft. per month (₹ 44,692 sq.m. per annum). These are the average rentals for entire malls, and not just for vanilla stores or for any particular floor. Therefore, the low of ₹ 56 psfpm at Ahmedabad reflects the average rent for the “cheapest” mall in that city and the high of ₹ 92 psfpm reflects the average rent for the “most expensive” mall there.

If we remove NCR and Mumbai from this list, the high falls by more than half, to just ₹ 144 sq.ft. per month (₹ 18,600 sq.m. per annum).

The gap between the lows in all the eight metropolises (₹ 56 to 71 psfpm) is just 27 percent, while the gap between the highs (₹ 92 to 346 psfpm) is a whopping 276 percent. Later, we will look at whether such high disparity is justified or not, from the retailers’ point of view.

The second chart here shows how the average mall rentals in the same eight metropolises have increased or decreased in the last five years. These figures are total increase or decrease over five years, and not an annual average.

It is alarming to see that the lowest rentals in all eight markets have seen very little increase, the highest being 11 percent in Chennai – in fact, in three out of eight markets, the lowest rentals have actually decreased – and the only reason that this can be attributed to is oversupply. In the case of the highest rentals, while NCR, Greater Mumbai and Chennai have seen very good rate of increase, the situation is alarming in Pune, Hyderabad and Ahmedabad, and should serve as a strong alarm signal to any developers planning or building new malls in these markets. Even the highs in Greater Mumbai, NCR and Chennai are attributed to one mall each in these markets – High Street Phoenix and Palladium in Mumbai, Select CityWalk in Delhi, and Express Avenue in Chennai, the last being a new mall added during this five-year period.

OVER THE LAST FIVE YEARS, THE HIGHEST AVERAGE RENTAL FOR A MALL HAS INCREASED BY A WHOPPING 110 PERCENT (ALTHOUGH THIS IS JUST BECAUSE OF ONE MALL – HIGH STREET PHOENIX + PALLADIUM, MUMBAI)



### GREATER MUMBAI

The average mall rentals in Greater Mumbai (which includes Navi Mumbai, Thane and Kalyan) are in the range of ₹ 64-346 psfpm (₹,267 to ₹ 44,692 psmpa). Over the last five years, the highest average rental for a mall has increased by a whopping 110 percent (although this is just because of one mall – High Street Phoenix + Palladium), while the lowest rental has declined by 9 percent.

Lowest project cost (land + development) (in ₹ per sq.ft. of carpet area)	8,450
Lowest total annual income (in ₹ per sq.ft.)	845
Project ROI (%)	10.0
Highest project cost (land + development) (in ₹ per sq.ft. of carpet area)	40,000
Highest total annual income (in ₹ per sq.ft.)	4,567
Project ROI (%)	11.4

NOTE: Lowest and highest total annual income (for all markets) includes additional income equal to 10 percent of rentals, assumed towards parking, commercial signage space on hire, events and other income. This may differ from mall to mall, and may range from a low of 5 percent to a high of 15 percent.

The above table shows that, at current development costs (including land or FAR/FSI cost), it is not viable for a developer to build a new mall in Greater Mumbai, as any real estate project should give a minimum 18 percent project ROI. While this is a general picture of the entire metro region, there may be some areas where malls may still be feasible.

Lowest average annual mall rent (in ₹ per sq.ft.)	768
Lowest estimated annual trading density (in ₹ per sq.ft.)	5,400
Rent as a percent of retailers’ gross revenue (average) (%)	14.2
Highest average annual mall rent (in ₹ per sq.ft.)	4,152
Highest estimated annual trading density (in ₹ per sq.ft.)	25,000
Rent as a percent of retailers’ gross revenue (average) (%)	16.6

The table above shows that, based on the estimated annual average “trading density” of the malls with the lowest and highest rentals, the retailers are paying quite high rents, especially in the mall with the highest rent. Typically, the average rent for all retailers in a mall should be in the range of 11–12 percent of their annual gross sales revenue.

As there isn’t much difference between the rent and TD ratios between the lowest priced and highest priced malls, it is markedly clear that the huge rental disparity in the metropolitan region is justified, although the “highest” rent could be lower by about 10–11 percent.





THE HIGHEST RENTAL IN DELHI-NCR HAS INCREASED BY A WHOPPING 103 PERCENT (ALTHOUGH THIS IS BECAUSE OF ONE MALL, SELECT CITYWALK)

## NATIONAL CAPITAL REGION

The average mall rentals in the NCR, which includes New Delhi, Gurgaon, Noida, Greater Noida, Faridabad, and Ghaziabad, are currently in the range of ₹ 62–325 psfpm (₹ 8,009–41,980 psmpa). In the last five years, just like Greater Mumbai, the highest rental has increased by a whopping 103 percent (although this is also because of one mall, Select CityWalk), while the lowest rental has declined by 6 percent.

Lowest project cost (land + development) (in ₹ per sq.ft. of carpet area)	7,850
Lowest total annual income (in ₹ per sq.ft.)	818
Project ROI (%)	10.4
Highest project cost (land + development) (in ₹ per sq.ft. of carpet area)	33,000
Highest total annual income (in ₹ per sq.ft.)	4,290
Project ROI (%)	13.0

The above table shows that, at current development costs (including land or FAR/FSI cost), it is not viable for a developer to build a new mall in the NCR, although the yields are slightly better than those in Greater Mumbai. While this is a general picture of the entire metropolitan region, there may be some areas where malls may still be feasible.

Lowest average annual mall rent (in ₹ per sq.ft.)	744
Lowest estimated annual trading density (in ₹ per sq.ft.)	5,400
Rent as a percent of retailers' gross revenue (average) (%)	13.8
Highest average annual mall rent (in ₹ per sq.ft.)	3,900
Highest estimated annual trading density (in ₹ per sq.ft.)	27,500
Rent as a percent of retailers' gross revenue (average)	14.2 %

According to this table, the retailers are paying high rents in the NCR too, based on their estimated trading densities. It also shows that the huge disparity between the lowest and highest rent is justified.

## CHENNAI

The average mall rentals in Chennai are in the range of ₹ 71–144 psfpm (₹ 9,171–18,600 psmpa). In the last five years, the highest rental has increased by a healthy 65 percent while, contrary to the declines in the two largest markets of Greater Mumbai and NCR, the lowest rental has increased by 11 percent.

Lowest average annual mall rent (in ₹ per sq.ft.)	852
Lowest estimated annual trading density (in ₹ per sq.ft.)	6,000
Rent as a percent of retailers' gross revenue (average) (%)	14.2
Highest average annual mall rent (in ₹ per sq.ft.)	1,728
Highest estimated annual trading density (in ₹ per sq.ft.)	14,000
Rent as a percent of retailers' gross revenue (average) (%)	12.3

The

above table shows that it is not viable for a developer to build a new mall in Chennai also, and the yields for the highest category – usually in the heart of the city's CBD – are much lower than those even in Greater Mumbai and NCR. Like in the case of the other metro regions, while this is a general picture of the entire city/market, there may be some specific areas where malls may still be feasible.

Lowest project cost (land + development) (in ₹ per sq.ft. of carpet area)	7,450
Lowest total annual income (in ₹ per sq.ft.)	937
Project ROI (%)	12.6
Highest project cost (land + development) (in ₹ per sq.ft. of carpet area)	28,000
Highest total annual income (in ₹ per sq.ft.)	1,901
Project ROI (%)	6.8

If we look at this table, here too retailers are paying high rents, based on their estimated trading densities, especially in the lowest priced mall. However, it is clear that the disparity between the lowest and highest rent is justified.

## BENGALURU

The average mall rentals in Bengaluru are in the range of ₹69–139 psfpm (₹8,913–17,954 psmpa). In the last five years, the highest rental has increased by a healthy 58 percent, while the lowest rental has increased by 5 percent, similar numbers as Chennai.

Lowest project cost (land + development) (in ₹ per sq.ft. of carpet area)	7,450
Lowest total annual income (in ₹ per sq.ft.)	911
Project ROI (%)	12.2
Highest project cost (land + development) (in ₹ per sq.ft. of carpet area)	28,000
Highest total annual income (in ₹ per sq.ft.)	1,835
Project ROI (%)	6.6

The above table paints a very similar picture as that of Chennai, with a dismal outlook for developers wanting to build new malls in Bengaluru. Like in the case of the other metro regions, while this is a general picture of the entire city or market, there may be some specific areas where malls may still be feasible.

Lowest average annual mall rent (in ₹ per sq.ft.)	828
Lowest estimated annual trading density (in ₹ per sq.ft.)	5,400
Rent as a percent of retailers' gross revenue (average) (%)	15.3
Highest average annual mall rent (in ₹ per sq.ft.)	1,668
Highest estimated annual trading density (in ₹ per sq.ft.)	12,500
Rent as a percent of retailers' gross revenue (average) (%)	13.3

In Bengaluru, too, rents are high, based on retailers' estimated trading densities.



## KOLKATA

The average mall rentals in Kolkata are in the range of ₹ 69–125 psfpm (₹ 8,913–16,146 psmpa). In the last five years, the highest rental has increased by 51 percent, while the lowest rental has increased by 5 percent, a similar situation like Chennai and Bengaluru.

Lowest project cost (land + development) (in ₹ per sq.ft. of carpet area)	7,850
Lowest total annual income (in ₹ per sq.ft.)	911
Project ROI (%)	11.6
Highest project cost (land + development) (in ₹ per sq.ft. of carpet area)	28,000
Highest total annual income (in ₹ per sq.ft.)	1,650
Project ROI (%)	5.9

The above table presents a very similar picture as that of Chennai and Bengaluru, with a dismal outlook for developers wanting to build new malls in Kolkata.

Lowest average annual mall rent (in ₹ per sq.ft.)	828
Lowest estimated annual trading density (in ₹ per sq.ft.)	5,700
Rent as a per cent of retailers' gross revenue (average) (%)	14.5
Highest average annual mall rent (in ₹ per sq.ft.)	1,500
Highest estimated annual trading density (in ₹ per sq.ft.)	11,000
Rent as a percent of retailers' gross revenue (average) (%)	13.6

Once again, the rents are high (based on ATDs) like the other four markets.

## GREATER HYDERABAD

The average mall rentals in Greater Hyderabad, which includes Secunderabad and Cyberabad, are in the range of ₹ 64–110 psfpm (₹ 8,267–14,208 psmpa). In the last five years, the highest and lowest rentals have increased by dismal rates of 25 and 3 percent, respectively.

Lowest project cost (land + development) (in ₹ per sq.ft. of carpet area)	7,450
Lowest total annual income (in ₹ per sq.ft.)	845
Project ROI (%)	11.3
Highest project cost (land + development) (in ₹ per sq.ft. of carpet area)	25,000
Highest total annual income (in ₹ per sq.ft.)	1,452
Project ROI (%)	5.8

This table shows a very similar picture as that of Chennai, Bengaluru and Kolkata, with a dismal outlook for developers wanting to build new malls in Greater Hyderabad.

Lowest average annual mall rent (in ₹ per sq.ft.)	768
Lowest estimated annual trading density (in ₹ per sq.ft.)	5,000
Rent as a per cent of retailers' gross revenue (average) (%)	15.4
Highest average annual mall rent (in ₹ per sq.ft.)	1,320
Highest estimated annual trading density (in ₹ per sq.ft.)	10,000
Rent as a percent of retailers' gross revenue (average) (%)	13.2

Just like the first five metropolitan regions covered above, the rents in Greater Hyderabad are also high, based on retailers' estimated trading densities.

## PUNE (INCLUDING PIMPRI-CHINCHWAD)

The average mall rentals in Pune, including the neighbouring industrial suburbs falling within the Pimpri-Chinchwad belt, are in the range of ₹ 62–102 psfpm (₹ 8,009–13,175 psmpa). In the last five years, the highest rental has increased by a dismal 21 percent, while the lowest rental has declined by 2 percent.

Lowest project cost (land + development) (in ₹ per sq.ft. of carpet area)	7,450
Lowest total annual income (in ₹ per sq.ft.)	818
Project ROI (%)	11.0
Highest project cost (land + development) (in ₹ per sq.ft. of carpet area)	25,000
Highest total annual income (in ₹ per sq.ft.)	1,346
Project ROI (%)	5.4

The above table paints a very similar picture as that of Chennai, Bengaluru, Kolkata and Greater Hyderabad, with a dismal outlook for developers wanting to build new malls in the Pune-Pimpri-Chinchwad region.

Lowest average annual mall rent (in ₹ per sq.ft.)	744
Lowest estimated annual trading density (in ₹ per sq.ft.)	4,800
Rent as a per cent of retailers' gross revenue (average) (%)	15.5
Highest average annual mall rent (in ₹ per sq.ft.)	1,224
Highest estimated annual trading density (in ₹ per sq.ft.)	8,500
Rent as a percent of retailers' gross revenue (average) (%)	14.4

Just like the first six metropolitan regions covered above, the rents in the Pune region are also high, based on retailers' estimated trading densities. It is astonishing how all markets covered here pose a very similar picture, when it comes to rent as a percentage of retailers' gross revenues.

## AHMEDABAD

The average mall rentals in Ahmedabad are in the range of ₹ 56–92 psfpm (₹ 7,233–11,883 psmpa), the lowest amongst the top eight markets in India. In the last five years, similar to the situation in Greater Hyderabad, the highest and lowest rentals in Ahmedabad have increased by dismal rates of 30 and 4 percent, respectively.

Lowest project cost (land + development) (in ₹ per sq.ft. of carpet area)	7,450
Lowest total annual income (in ₹ per sq.ft.)	739
Project ROI (%)	9.9
Highest project cost (land + development) (in ₹ per sq.ft. of carpet area)	21,000
Highest total annual income (in ₹ per sq.ft.)	1,214
Project ROI (%)	5.8

It is not surprising that Ahmedabad has been termed as modern retail's graveyard. The above table shows that, at current development costs, including land or FAR/FSI cost, it is not viable for a developer to build a new mall in the city, which has the lowest yields amongst the top eight markets. Only one mall (AlphaOne) has performed well in this city.

Lowest average annual mall rent (₹ psf)	672
Lowest estimated annual trading density (₹ psf)	4,800
Rent as a per cent of retailers' gross revenue (average)	14.0 per cent
Highest average annual mall rent (₹ psf)	1,104
Highest estimated annual trading density (₹ psf)	8,200
Rent as a percent of retailers' gross revenue (average)	13.5 per cent

According to our research, the rents compared to retailers' estimated trading densities are similar in all the other seven metropolitan regions.



RETAIL FORMAT	REVENUE SHARE RANGE (%)	AVERAGE REVENUE SHARE (%)
Food Court Counter Operators	20.00 to 33.00	25.00
FECs	13.50 to 27.50	20.00
Beauty Salons, Hairdresser	15.00 to 23.00	18.50
Ice Cream, Juices	15.00 to 22.00	18.00
Cafés	12.50 to 23.00	17.50
Western Fashion – International	12.00 to 18.00	15.00
Leather Bags and Accessories	12.00 to 17.00	14.50
Western Fashion – National	11.00 to 16.00	14.00
Denim Apparel	11.00 to 16.00	13.50
Multiplex	11.00 to 16.00	13.50
Restaurants (Formal or Fine Dining)	11.00 to 17.50	13.00
Eyewear	10.00 to 14.00	12.50
Restaurants (Casual Dining)	10.00 to 14.00	12.00
Sports Lifestyle EBOs	10.50 to 13.50	12.00
Footwear	9.00 to 15.00	11.50
Ethnic Fashion – New Gen	10.00 to 13.50	11.00
Gift Shops	9.50 to 12.50	11.00
Ethnic Fashion – South Traditional	8.00 to 11.50	9.50
Bookstores	7.00 to 11.00	9.00
Health & Beauty	6.00 to 10.00	8.00
Watches MBOs	7.00 to 9.00	8.00
Small Department Stores – 10,000-25,000 sq.ft.	7.50 to 9.50	8.00
Quick Service Restaurants*	5.50 to 8.50	7.00
Large Department Stores – 30,000 sq.ft.	6.50 to 8.00	7.00
Watches EBOs	6.00 to 8.00	7.00
Furniture Megastores	5.50 to 7.50	6.50
Pharmacy	3.75 to 5.00	4.25
Grocery Stores	4.00 to 4.75	4.25
Supermarkets – 10,000-35,000 sq.ft.	3.00 to 4.50	3.75
Hypermarkets – 35,000 sq.ft.	2.50 to 4.00	3.50
Electronics Specialty	2.50 to 3.75	3.00
Electronics Megastores	2.75 to 3.50	3.00
Mobile Boutique	2.00 to 2.40	2.10
Jewellery – Gold and Diamond	1.50 to 2.00	1.75

\* 1.00-2.00% higher in Food Courts

## Revenue Share

In the initial years of the establishment of modern shopping malls in India, retailers used to pay fixed rentals to property owners.

In many of the early malls, developers (including DLF, India's largest developer) followed the concept of strata sales, which meant selling individual shops in the mall to different investors, who could then choose to either set up a shop there, or rent it out to other tenants. Some developers first leased out the shops, and then sold them to investors based on the rental yields.

The attraction of this system for most mall developers lay in the fact that it allowed them to recover their investment (and also make a handsome profit), so that they could rotate the money to build another mall.

This led to the problem of no proper tenancy mix planning, or no cohesion amongst shops standing next to each other, resulting in a luxury or premium brand being next to a mass market brand – a definite no-no for successful running of any mall. Developers more often than not chased the highest rents, without thinking about the shopping experience being offered to families within the catchment. So, we had malls with only (or mostly) fashion brands.

Property consultants, too, did not help with proper guidance, as they made double the money – once for leasing the shop to a retailer tenant and once more for selling the same shop to an investor.

In the initial years, there was little incentive in running a mall properly, keeping the facilities clean and in maintaining them, or in weeding out bad tenants while attracting good ones to replace them. With multiple owners, there was no central agency to coordinate the running of the mall or to get new attractions to pull in new customers.

It was only after the global financial crisis of 2008–2009 that retailers started forcing developers to adopt the western model of revenue-share based rentals. We use the word “western” as this model has not yet gained popularity in most of the Asian markets.

The revenue-share rental model provided an incentive to developers and mall managers to have a long-term perspective, and work towards helping their tenants prosper. Developers seriously started looking at all aspects of mall planning – tenancy mix, right sizing of stores, functionality of the design, lighting, parking, vertical movement, etc.

The above table gives the range of revenue share rent and the average revenue share percentage currently prevalent in Indian malls. The revenue share percentages exclude CAM. The actual percentages vary from city to city, location to location, store sizes, location within the mall, and other such factors.

So, has the revenue share rental model helped either the developers or the retailers? Of course, many developers are now planning and managing their malls in a much more professional manner, and many non-serious players have stepped out of the game. It is also a known fact that most established retailers are now sceptical of signing up space in malls, which have strata sales.

But the key question that remains to be answered is – if malls are not viable for either developers or retailers, what is wrong? Is it the Indian consumption story? Is it the case of far too many malls? Or, does it have to do with retailer's performance?

IT WAS ONLY AFTER THE GLOBAL FINANCIAL CRISIS OF 2008–2009 THAT RETAILERS STARTED FORCING DEVELOPERS TO ADOPT THE WESTERN MODEL OF REVENUE-SHARE BASED RENTALS. WE USE THE WORD “WESTERN” AS THIS MODEL HAS NOT YET GAINED POPULARITY IN MOST OF THE ASIAN MARKETS



THE REVENUE-SHARE RENTAL MODEL PROVIDED AN INCENTIVE TO DEVELOPERS AND MALL MANAGERS TO HAVE A LONG-TERM PERSPECTIVE, AND WORK TOWARDS HELPING THEIR TENANTS PROSPER



2013 RANK	COUNTRY	REGION	MARKET ATTRACTIVENESS (25%)	COUNTRY RISK (25%)	MARKET SATURATION (25%)	TIME PRESSURE (25%)	GRDI SCORE	CHANGE IN RANK COMPARED TO 2012
1	Brazil	Latin America	100.0	86.2	43.3	48.3	69.5	-
2	Chille	Latin America	95.6	100.0	18.7	54.3	67.1	-
3	Uruguay	Latin America	92.0	73.9	63.5	36.5	66.5	+1
4	China	Asia	62.1	67.9	34.3	100.0	66.1	-1
5	United Arab Emirates	MENA	95.8	94.6	3.0	60.8	63.5	+2
6	Turkey	Eastern Europe	86.8	83.7	28.9	50.9	62.6	+7
7	Mongolia	Asia	17.7	37.0	99.0	96.5	62.5	+2
8	Georgia	Central Asia	36.6	63.8	83.4	61.9	61.4	-2
9	Kuwait	MENA	87.8	87.1	36.4	22.2	58.4	+3
10	Armenia	Central Asia	32.3	63.6	93.5	43.6	58.2	NA
11	Kazakhstan	Central Asia	44.1	51.9	76.2	57.8	57.5	+8
12	Peru	Latin America	52.9	60.4	63.4	49.3	56.5	-2
13	Malaysia	Asia	63.4	95.8	22.0	39.8	55.3	-2
14	India	Asia	36.8	59.4	63.3	60.6	55.0	-9
15	Sri Lanka	Asia	16.6	60.5	81.8	58.6	54.4	-
16	Saudi Arabia	MENA	71.4	79.2	35.6	30.7	54.2	-2
17	Oman	MENA	77.5	97.8	11.3	29.1	53.9	-9
18	Colombia	Latin America	59.2	73.6	43.0	32.4	52.1	+5
19	Indonesia	Asia	47.4	49.6	49.3	61.4	51.9	-3
20	Jordan	MENA	53.1	65.0	65.9	19.6	50.9	-2

## RENTALS IN INDIA ARE NOT HIGH. THIS IS CLEAR FROM THE FACT THAT EVEN AT THE CURRENT RENTALS, RETURNS ON INVESTMENT FOR MALL DEVELOPERS ARE ABYSMALLY LOW. WHEN DEVELOPERS CAN MAKE BETTER RETURNS FROM RESIDENTIAL PROJECTS AT THE SAME LAND PRICES, THE RETAIL RENTALS ACTUALLY NEED TO GO UP

The answer includes a mix of several factors. From the developers' point, the key success factors for a mall are location, accessibility, parking, tenancy mix, store sizes, design, marketing, maintenance and regular updating. While a large majority of malls in India are correctly located, they fail on one or more of the other factors. Before we dwell on this further, let's look at some global comparisons.

The average mall rent in the USA is around ₹ 215 psfpm (US\$ 3.30 psfpm) and the average trading density is ₹ 2444 psdpm (US\$ 37.60 psfpm), giving a rent:TD ratio of 8.8 percent.

Simon Property Group, the largest owner and operator of malls in the world, had an average trading density of ₹ 3,077 psfpm (US\$ 568 psfpa) in its 317 malls based in the US, in 2012. In comparison, the base minimum rent (called minimum guaranteed rent or MG in India) was ₹ 221 psfpm (US\$ 40.73 psfpa), giving a rent:TD ratio of 7.2 percent, or about half the Indian average of 14.3 percent.

In Japan, Simon had ATD of JPY 91,141 psfpa (₹ 5,083 psfpm) and Base Minimum Rent of JPY 4,923 psfpa (₹ 275 psfpm), giving a rent:TD ratio of 5.4 percent.

Amongst American retailers, Apple has the highest ATD at ₹ 32,770 psfpm, followed by Tiffany & Co. at ₹ 16,342, Lululemon Athletica at ₹ 10,487, Coach at ₹ 10,135 and Michael Kors at ₹ 7751 psfpm. CDIT retail giant Best Buy had an ATD of ₹ 4377 last year, compared to an all-time high of ₹ 4908 in 2009.

The average retail rent in Dubai is about ₹ 260 psfpm, while at leading malls such as Deira City Centre, Mall of the Emirates and The Dubai Mall, it is around ₹ 660 psfpm. As per the International Council of Shopping Centers, Mall of the Emirates has an average trading density of ₹ 7700 psfpm, thus giving a rent:TD ratio of 8.6 percent.

The ATD in Singapore is around ₹ 4500 psfpm and average rent about ₹ 535 psfpm, giving a rent:TD ratio of 11.9 percent.

The average mall rent in Bangkok is ₹ 282 psfpm and ATD is ₹ 2750 psfpm, giving a rent:TD ratio of 10.3 percent.

What all these numbers suggest is that Indian retailers' trading densities are too low, not just compared with developed economies, but also with emerging markets.

Let us examine some facts. Fashion retailer Zara (part of Spain's Inditex Group) had an ATD of ₹ 2,900 psfpm last fiscal, in its second year in India. All of Zara's nine operational stores in India are inside shopping malls. Apple stores' trading densities within Indian malls is more than ₹ 8,500 psfpm.

In comparison, the ATD of all retailers in all malls across the eight metro regions covered in this article is less than ₹ 800 psfpm. So what is wrong? My take on this is that Indian malls are attracting the wrong retailers. The contribution of modern retailers to total Indian consumer spend is less than 15 percent; in these eight markets, it is about 21 percent. However, modern retailers comprise more than 95 percent of the mall spaces.

Unless malls attract traditional local or regional retailers, they will continue to flounder. And, the India modern retail story will be over even before it has started to take off. According to AT Kearny's 2013 Global Retail Development Index (extract of Top 20 shown above), India has dropped from the 5th position in 2012 to the 14th position. From 2009 to 2011, India was number 1 on this list.

Given the fact that foreign retailers are used to much higher ATDs, there is definitely logic in the argument that full opening of FDI in the retail sector will help malls. But will we keep waiting, or wake up to the Indian reality and start changing our tenancy mix? ♦♦

*Source: The above mentioned information is sourced from the sixth edition of Malls of India, an IMAGES Group presentation*



### About the Author:

Amit Bagaria is founder chairman of Asipac Projects, one of India's leading mall development consultant; Asipac Mall Services, among India's fastest growing mall management companies.