

Shopping Centres Co-existing with the **COVID-19**



Preface

Retail is a sector that caters to the ever changing needs of human nature. Retail presents itself in various forms, from small scale stores to high street stores to shopping centres/malls which has become very popular in India in the last two decades. The one-stop location for shopping, food and beverage, entertainments such as cinemas in the multiplexes have seen the speedy growth of the otherwise global concept of malls. While this is still a promising sector, the sudden outbreak of the Covid-19 and the subsequent methods of lock-down and social distancing methods adopted to curtail and contain the virus has resulted in the degrowth in this sector. Perceiving this to be only a hurdle and not the end, requires the stakeholders to re-think and re-strategise the functioning of shopping centre/malls which are in good stock pan India.

Pioneer Property Zone Services Pvt Ltd., who provide mall design development and management solutions nationwide in association with Gleeds India have co-authored this report to address the very issue of the future of retail and shopping centres / malls. PPZ's vast experience in mall design and their close association with retailers along with Gleeds's market leading retail sector expertise in construction consultancy has proved to be quintessential collaborative platform to provide an analysis of the current status of the shopping centre and malls and its future to assist in making informed decisions. We anticipate that this report will enlighten our clients and associates giving a better understanding of the retail sector to consider new strategies, marketing and most importantly attract consumers with the robust safety measures and enable the rejuvenation of the sector.



Najeeb Kunil

CEO and Board Member
Pioneer Property Zone Services Pvt. Ltd.

Najeeb, a graduate from Mumbai University with a business program from the University of Michigan and IIM-A, has over 20 years of experience in the real estate sector with specialisation in large retail centric assets. He possesses an in-depth knowledge on the local markets, demographics and an extensive network with leading developers, landowners, national retailers and financial institutions. Over the last decade, he has developed expertise in managing large properties and has a proven track record in optimising revenue and increasing valuation of large retail centric assets.



Ben Huskisson

Managing Director
Gleeds Consulting (I) Pvt. Ltd

Ben is a member of the Royal Institution of Chartered Surveyors, holds a Bachelor of Science from Stanford University and promotes numerous industry accredited institutions. He is the Managing Director of Gleeds India business since 2010 and has spearheaded the company's expansion into various sectors, establishing and growing the business in India and territories in the Indian Ocean. In his 22 years' of construction and real estate experience in hospitality, health, mixed use, transport, residential, regeneration, education, commercial and retail sectors, he has worked in Gleeds London, Nottingham & Leeds offices in the UK, parts of Europe, Middle-East, Australia and India over various sectors.

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Introduction

The Organised Retail Sector in India, pre-dominantly catered by shopping centres/malls, has been growing in tandem with the Indian consumption growth. The recorded growth of retail was US\$ 950 billion in 2018 at CAGR of 13 per cent.

 Organised retail growth
22% to 25% in
2021 expected.

 E-commerce growth
\$ 84 billion expected
in 2021

 Growth of shopping malls
600+ pan India

 Multi-faceted, Anchor stores,
Multiplexes, Food court, Gaming

With the outbreak of the pandemic, the retail sector, unfortunately is known to be one of the most severely affected sectors. Due to the lockdown restrictions enforced by the Central Government and the State Government, a subdued consumption sentiment, delay in new supply as well as leasing activity across the nation resulted in scarce footfalls. This unexpected turn of events lead to an existential crisis for the organized as well as the unorganized retail sector, with a major dip in revenues, expending the reserves and exploring of revised strategies, especially for shopping centres.

There has been a huge impact on the aspect of input cost. The delays of under construction shopping centre assets due to labour shortage, site productise and supply chain challenges during the early part of the lockdown has forced Developers to re-look at their capital investments. For existing and running shopping centres, there has been increased costs towards facility management for specially trained personnel, extensive sanitation, and customer frisking. On the other side, Developers and Tenants who had a revenue sharing arrangement, have been affected. Delay in collection of rents, has led to renegotiations between Tenants and Developers.

With the lifting of lockdown and the opening of malls since June 2020, there was a slight apprehension on safety and deliberation on the necessity to visit a public place, but, the festival demand coupled with marketing strategies promoting safety measures, has eased up the consumers sentiments on stepping out, bringing about a small rise in footfalls. Multiplexes, the big revenue generator, closed since March 2020 have now been allowed to open at 50% capacity following the standard operating procedures issued by the Information & Broadcasting ministry from October 1st 2020, anticipating a small rise in the degrowth, thus far.

The report reflects on the Past, present and future of shopping centres focusing on the construction costs, and how COVID – 19 has impacted retail business and stakeholders. Strategies accounting the changes in consumer behaviour, the new health and safety measures, financial strategies and changes in construction costs with pandemic influenced cost drivers, are anticipated to alter the present outlook of retail.

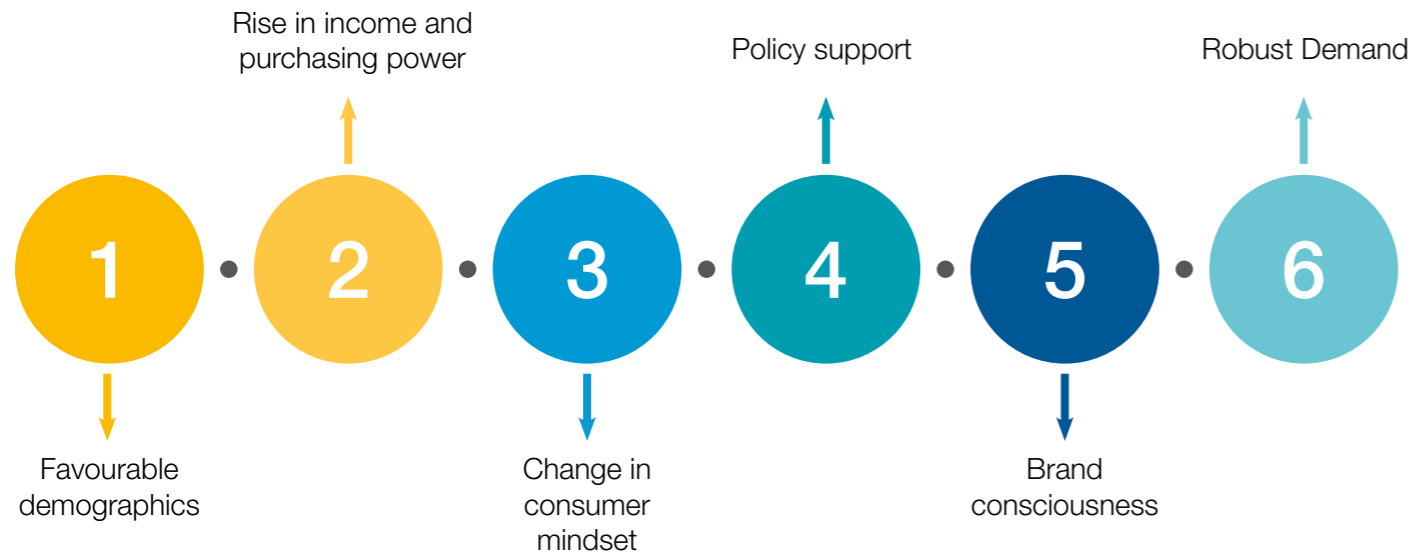


The Past

With no malls in 2000 to nearly 450 in 2010 to 600+ in the present, shows how significantly malls have grown which is a reflection of the consumer lifestyle changes in India. The young demographic of the nation with increased discretionary spends in the middle-class has been the biggest contributor. Tier I cities such as Mumbai, Delhi NCR, Chennai, Hyderabad and Kolkata have been first to benefit from the boom of organized retail. Rising interest of reputed developers, entry of national & international brands, increasing disposable income, foreign direct investments in retail sector have been the main growth drivers for retail sector.

Retail growth drivers

With increased land prices and saturation of organized retail along with high lease rentals in Tier I cities, the development story moved to Tier II cities such as Ahmadabad, Amritsar Chandigarh, Cochin, Coimbatore Lucknow, Jaipur and Surat. These cities with it's rising urban population, increased per ca-pita income, rising demand and affordable land prices has lead to continued growth.

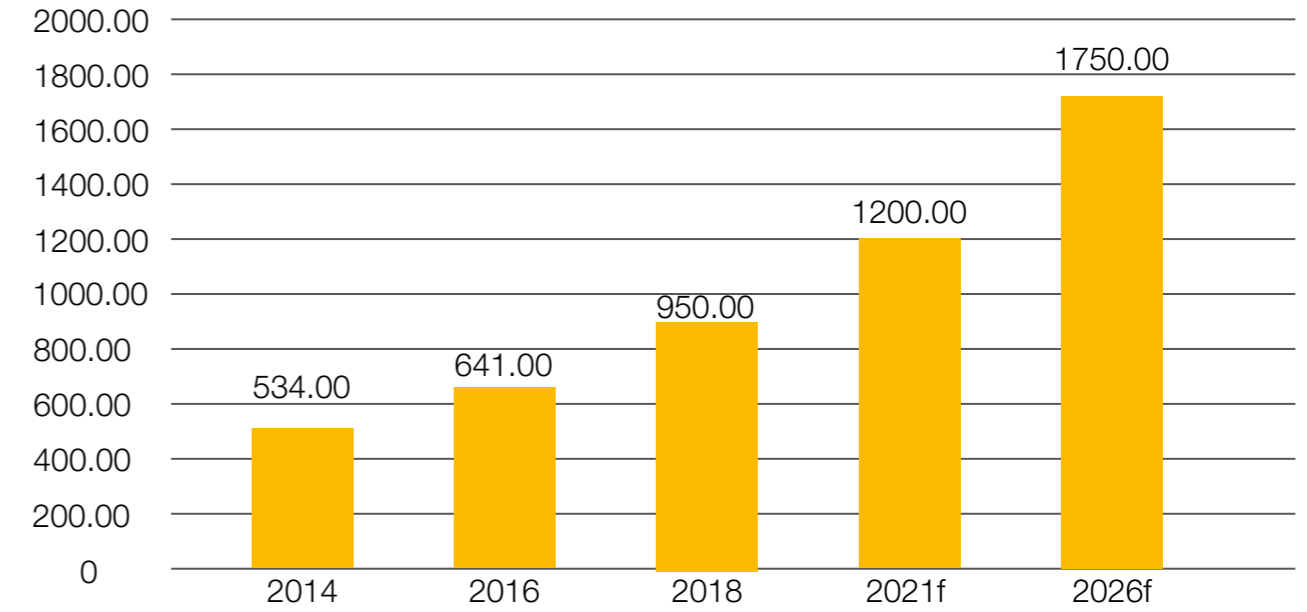


Investment in retail

According to the Department for Promotion of Industry and Internal Trade (DPIIT), the Indian retail trading has received Foreign Direct Investment (FDI) equity inflow totaling to US\$ 2.12 billion during April 2000–March

2020 India's retail sector attracted US\$ 970 million from various private equity funds in 2019. This is only a fraction of the huge market space India has to offer.

Market Size



Values in Billion US Dollar
Source: IBEF

Online retail market



Values in Billion US Dollar
Source: IBEF

Indian e-commerce market



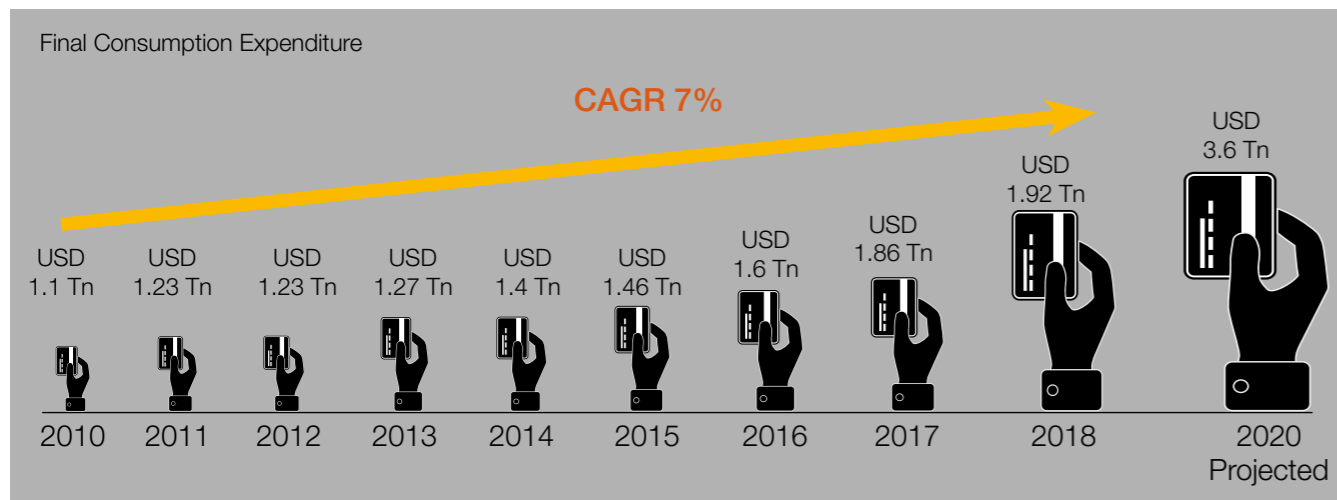
India ranked 73 in the United Nations Conference on Trade and Development's Business-to-Consumer (B2C) E-commerce Index 2019. Propelled by rising smartphone penetration, launch of 4G network and increasing consumer wealth, the Indian E-commerce market was expected to grow to US\$ 200 billion by 2026 from US\$ 38.5 billion in 2017. Online retail sales in India grew significantly led by Flipkart, Amazon India and Paytm Mall as reported by Indian Brand Equity Foundation (IBEF).

Growing consumption expenditure

Rising household income, socio-economic factors and change in spending pattern has led to increase in consumption expenditure in India. As per World Bank statistics, final consumption expenditure in India increased from USD 1.10 Tn in 2010 to USD 1.92 Tn in 2018, a CAGR of 7%. Total consumption expenditure was expected to reach nearly US\$ 3.6 tn by 2020. It accounts

for over 10 per cent of the country's gross domestic product (GDP) and around eight per cent of the employment.

Non-essentials such as fashion and electronics contribute 50% to the total retail while food and other essentials account for the rest. Modern retail generates 10-12% of the overall sales, according to RAI.



(Source – Anarock report, COVID19 – impact on Indian the RE sector)

Development drivers

The boom of the malls in the last 20 years has attracted investment from developers and private equity players. The growth of mall area over the country especially in Tier 1 cities and upcoming growth in Tier II cities has changed the investment landscape in India. India's Grade A shopping centre space was set to rise to 120 million square feet over the next 3 years from the current level of 100 million square feet, which is a substantial.

The development of malls has found traction and will continue to do so considering Indian demographics and lack of public meeting, gathering and recreational spaces. The discretionary spend that has increased in India, has contributed to people moving

towards a good brand that offers longevity in the product as against short term cheaper alternatives.

However, there are several factors that governs the growth and success of the shopping centre.

The development of shopping centre largely depends on target audience, catchment areas and where the Developer would like to position the development. The business case parameters would need to be considered and research on the economic environment surrounding the site and local bylaws, will help in understanding the project viability.

The size of the land parcel and its connectivity to other parts of the city through the surrounding road network would be of prime importance to the Developer. Approach to the malls are required to be checked, as easy accessibility attracts more footfall. Congestion and narrow roads turn off consumers and visitors, making it less attractive. The development should also be accessible easily by public transport services as the visiting audience which can be largely college students or youth mostly avail it. The parking management flow within the shopping centre needs to be clearly thought through while doing the initial master plan level planning.

Another and the most important criteria are the type of tenant mix, food & beverage options and the entertainment space the Developer is able to provide and attract. The vision of the Developer of selecting right size of spaces for the mix would require extensive analysis of catchment area, future needs and market trends analysis. The shifting consumer needs and behaviour especially in times like COVID-19 pandemic is important for the success of the shopping centre and return of the investment. Kiosk spaces which allows pick up of the online orders will be in trend in the future tenant mix which must be planned so. Similar to this, cloud kitchen concepts are being evaluated as options to cater the catchment.

The ease of circulation and way finding to their destinations, both horizontal and vertical internally within the shopping centre drives the comfort levels of the consumers. This needs to be achieved through strategic design management, understanding of behaviour patterns and placement of the escalators and elevators as well as through proper way finding signage.

The investment in innovative design, look and feel aspects depending on the positioning of the shopping centre plays an important

aspect which needs to be thought through clearly during early stage of development. Cities in India have proportionally lesser open spaces, parks and community spaces. The current generation recognize this and would prefer a nice and safe place to hang out with their friends and family. Development thoughts around non-conventional sporting areas, activated terrace areas and welcoming ground areas, places to hold regular events and community outreach programme assists in the success of the shopping centre.

The integration of the technology and required back-end services needs to be planned considering future trends. First demonetisation and now COVID-19 has changed the perception of online transaction in India. Like any running assets, even shopping centres has an extensive cost towards running and maintenance. Hence, it is important to look at the development cost drivers through the life cycle cost and not just limited to front end capital costs.

Financing of the capital investment required, the interest rates at the time of borrowing, the revenue that the mall is likely to generate, the ease of lease or rent of space in malls, promotions and marketing, tenant mix and the future growth are other considerations to be made in mall development.

It is very important to invest in initial planning and research which is the pathway to the successful functioning of the mall. With many small scale offers across various areas, malls have to not only meet the consumer demand, but make it worthwhile the visit. To be a cut above the rest a unique value proposition or a unique experience is to be put into the mix, for successful functioning.

The key construction cost drivers:

Once the mall developer has considered and researched the development drivers and worked out its feasibility, the next challenge would be the construction.

Construction of this retail asset that is good value for money, is the first step to its success, for which various aspects that contribute to construction costs are to be considered evaluated, incorporated into design followed by the actual construction. These influencers are noted as cost drivers below.



Benchmark construction costs-pre-pandemic

The mall categories are broadly considered as below:

Neighbourhood centres: City centre small size malls of upto 200,000 sqft Built-up area (BUA), with prime focus on day to day provisions such as supermarket or departmental stores, retail stores and small food and beverage areas.

Lifestyle malls/shopping centres: Medium sized malls ranging from 400,000 to 600,000 sqft BUA comprising of at least one anchor store, retail stores, food and beverage area, a few screen multiplex and small leisure activities, such as gaming and a car park facility.

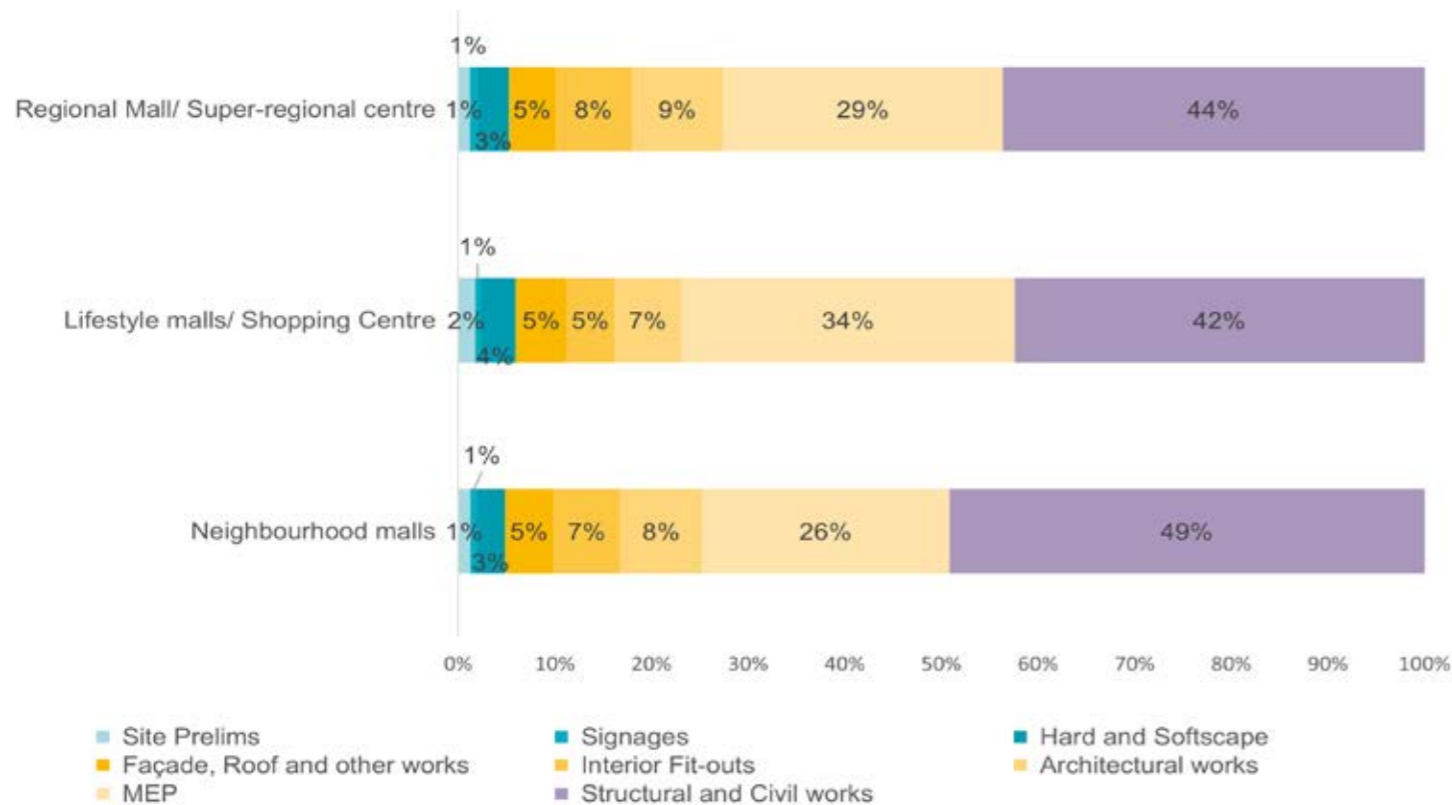
Super-regional mall: Larger malls of 1,000,000 to over 2,000,000 sqft BUA comprising of about three or more anchors stores, departmental stores, a variety of retail store, large food court, multiplexes, leisure activities and serves as a dominant shopping venue leaning more towards upscale customers for a large radius catchment area (40km radius) with a large car park facility.

Mall Type	Cost Range (INR/Sqft area)
Neighbourhood centres	2,000 to 2,400
Lifestyle malls/ Shopping Centre	2,400 to 2,700
Regional Mall/Super-regional centre	2,500 to 3,000

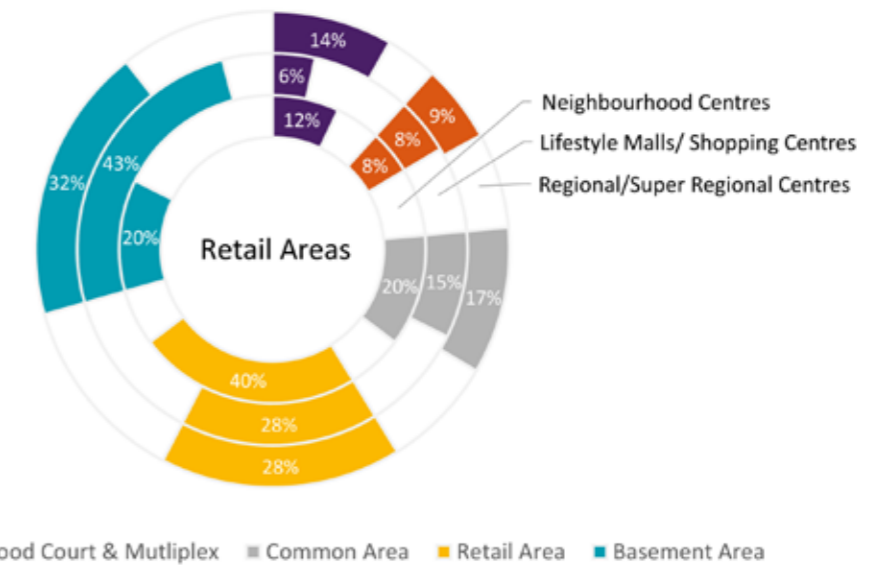
Source: Gleeds database.

Note: All costs are construction costs only and are pre-COVID-19 as on Dec 2019. Overall cost impact of COVID-19 to be assessed. The range is considered for Bangalore (as a mean for pan India).

Elemental cost breakdown:



Functional area split



Gleeds from its data base has benchmarked costs of construction for malls pan India. The costs have been demonstrated for substructure which hosts the parking area, generating revenues on parking and the superstructure that hosts cinemas, stores and food court generating the revenue in the superstructure. Both sub and superstructure hosts back of house areas for working staff offices, storage units and utility areas.

Costing notes:

All costs are construction cost only. All costs are in Indian National Rupees unless noted otherwise. Costs are considered on Built-up area (BUA) unless noted otherwise.

A judgement is to be applied on parameters such as location, design, site conditions, procurement routes, building shape and size, contract type, end-user requirements, quality and safety, market conditions, site restrictions, time of construction, quality and safety standards and other abnormals

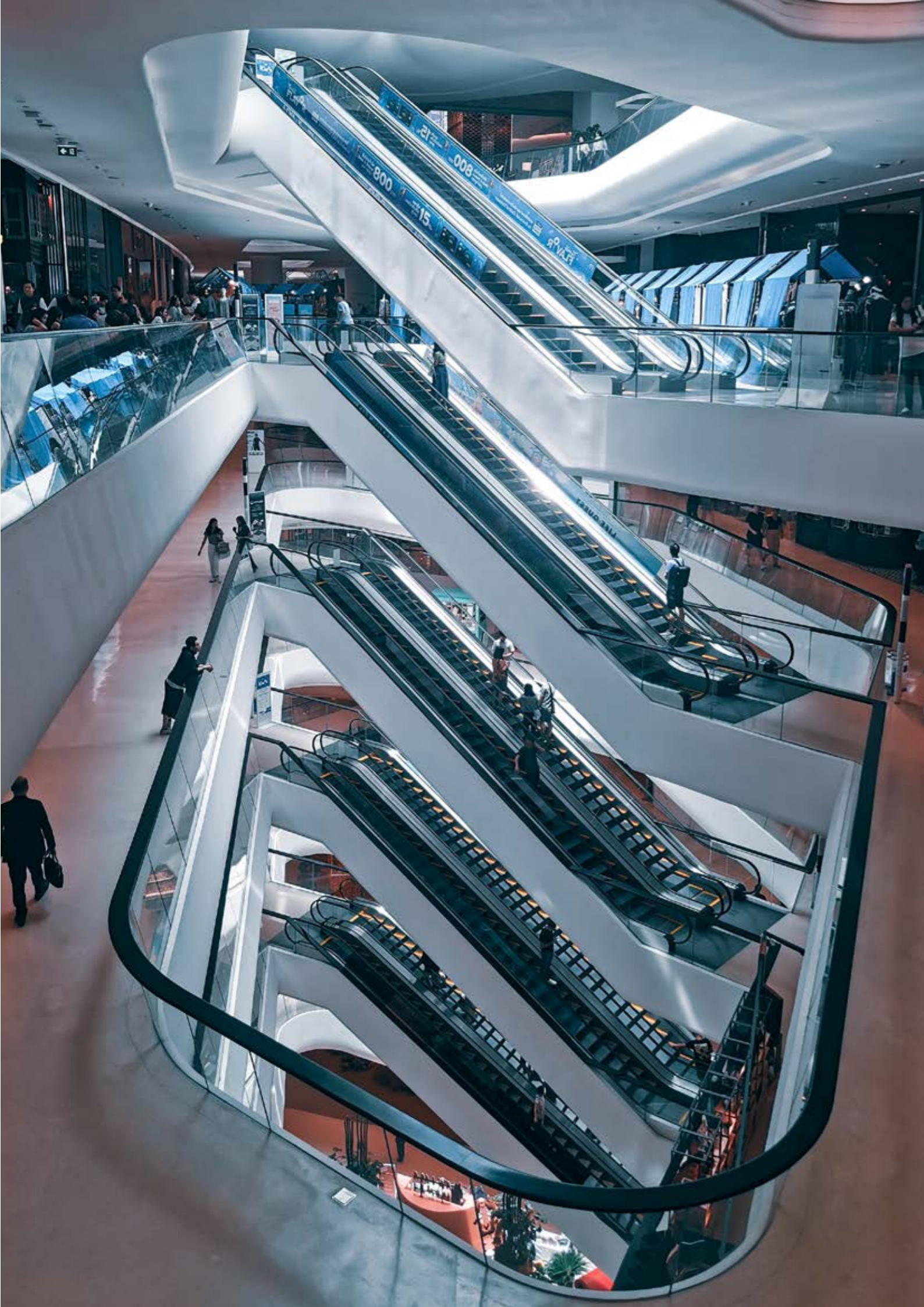
Inclusions:

- Shell and core
- Architectural and interior works.
- Interior fit-out works.
- Façade.
- Skylight
- External decking.
- Fixed furniture and mill work (interior common areas and external)
- All mechanical, electrical and plumbing works.
- Signages and artworks.
- Number of floors.
- Type of carparking
- Hard and soft landscapes work
- Standard trade package procurement

Exclusions:

- Site abnormals and any special site conditions.
- Client's costs for land value.
- Client's overheads & admin costs
- Client's profit margin.
- Pre-opening costs.
- Consultants, designers, engineers and other project management costs.
- GC/ design build / lumpsum procurement routes
- Project Insurance
- Force Majeure.
- Any preclearing, logistic costs incurred by Client before site hand over to contractor.
- Retail outlets, store fitouts including shop fronts.
- F&B kitchen and counter fit-out
- Any impact of the COVID-19
- GST.

All costs are pre-COVID-19. All costs are as per the Gleeds database.



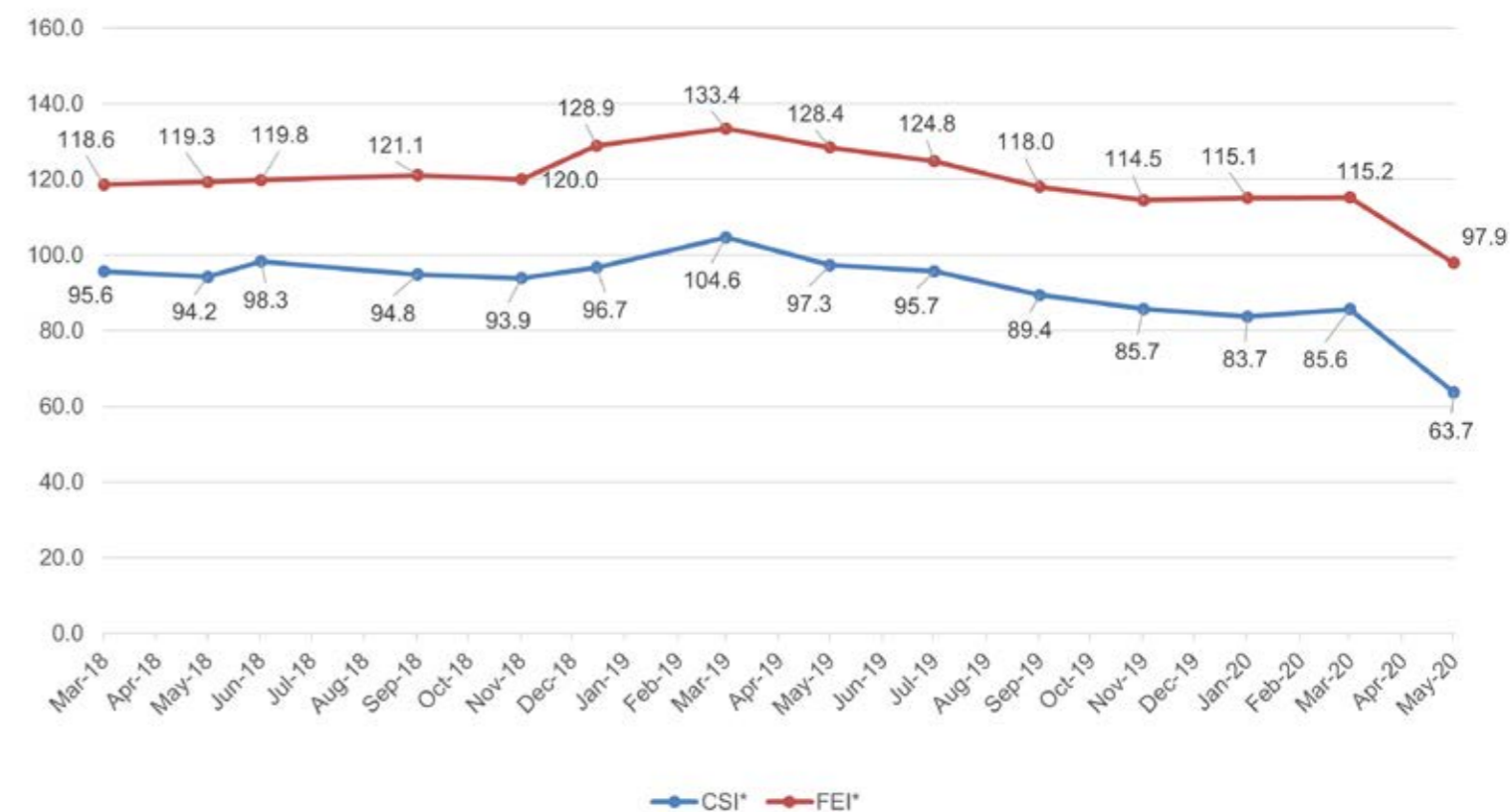
The present

This sector has undoubtedly buckled down under the effect of the forced lockdown an attempt to curtail the COVID-19 spread. The sector is run into a degrowth and is slowly crawling up with the lift of lockdown and reopening of malls in various locations. Though, recovery is not significant, the rise in consumer sentiments around festivals such as Raksha Bandhan and Ganesh Chaturthi

along with splurges after pent up demand have contributed to the slight rise in the otherwise falling sector. Sentiments towards shopping at a store, socialising and family outings to malls have shifted significantly in the current circumstances. The biggest attraction which is cinema in multiplexes have not yet resumed and the change in sentiment towards the reopening is yet to be tested.

Impact of consumer confidence on retail

The Reserve Bank of India in May 2020 Consumer Confidence Survey results conducted telephonically across 13 cities with 5,300 households participating yielded both the current situation index and the future expectation index has hit an all-time low with the consumer's discretionary spending has been cut with only essential spending taking place:



CSI- Current Situation Index.
 FEI- Future Expectations Index.
 *CSI/FEI = 100 + Average of Net Responses of (General Economic Situation, Employment Scenario, Price Level, Household Income and Overall Spending)
 Source: RBI Consumer Confidence Survey

The above clearly indicates that the consumers spending has decreased to an all time low since March 2018, a reflection on the consumer sentiments.

Impact on various stakeholders

The various stakeholders associated with the retail industry are impacted in the current circumstances and mall owners and tenants are working out strategies to bring their businesses back. Change in consumer behaviour has led retailers and mall operators to rework their retail strategies to sustain in longer run.

All are unaware of what the future is likely to be, and are reacting to this change in different ways. Consumers are cautious, retailers are innovating to attract consumers, mall developers are battling reduced revenues with additional operational costs, suppliers with crippled supply chains and the liquidity crunch.



Impact on retail

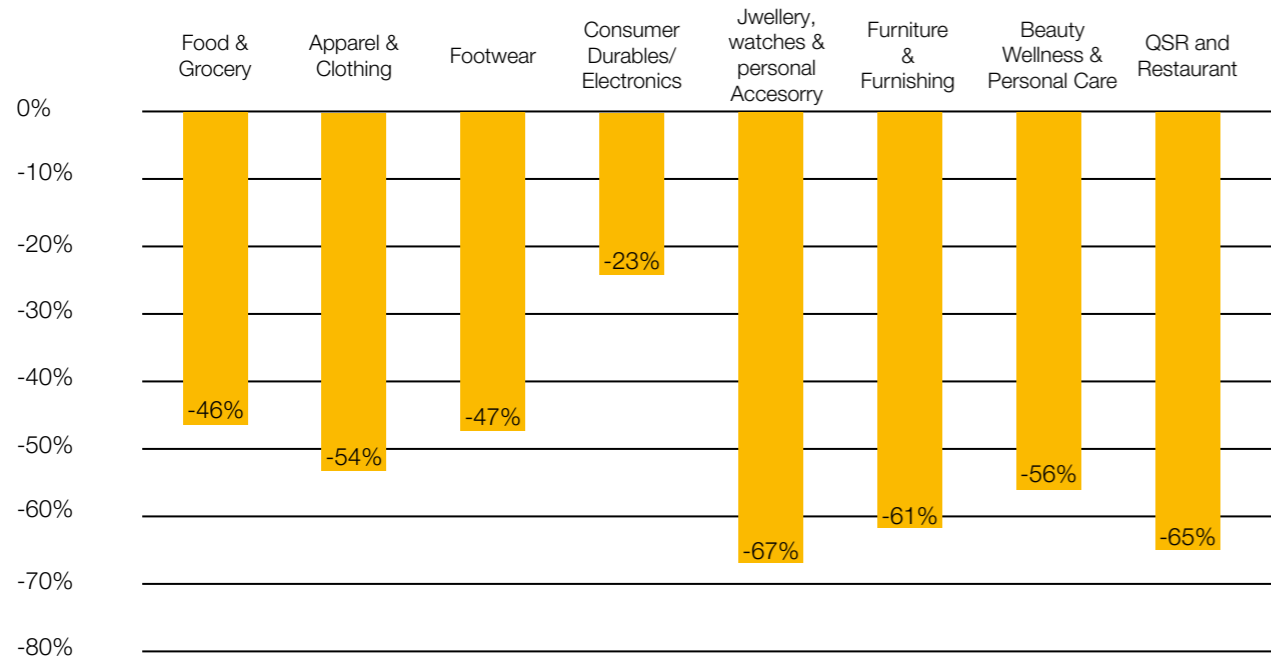
The overall economic gloom and employment uncertainty are likely to bear an impact on consumer spending this year, apart from lockdown and social distancing norms implemented. Hence PPZ's view is that overall consumer spending is likely to dip in the current year.

According to the Retailers Association of India (RAI), during the lockdown period, total earnings of non-essential products reduced to just 40% of what it was last year.

Retail is on the path to recovery, but still has a long way to go. The RAI survey round 6 results indicated that the business was 52% lower in August 2020 as compared to last year.

While consumer durables have done well the other categories are yet to recover. Large size retailers (>300 Crore) have done well in consumer durables while the smaller scale retailers have done well in footwear and furniture.

Retail recovery in August

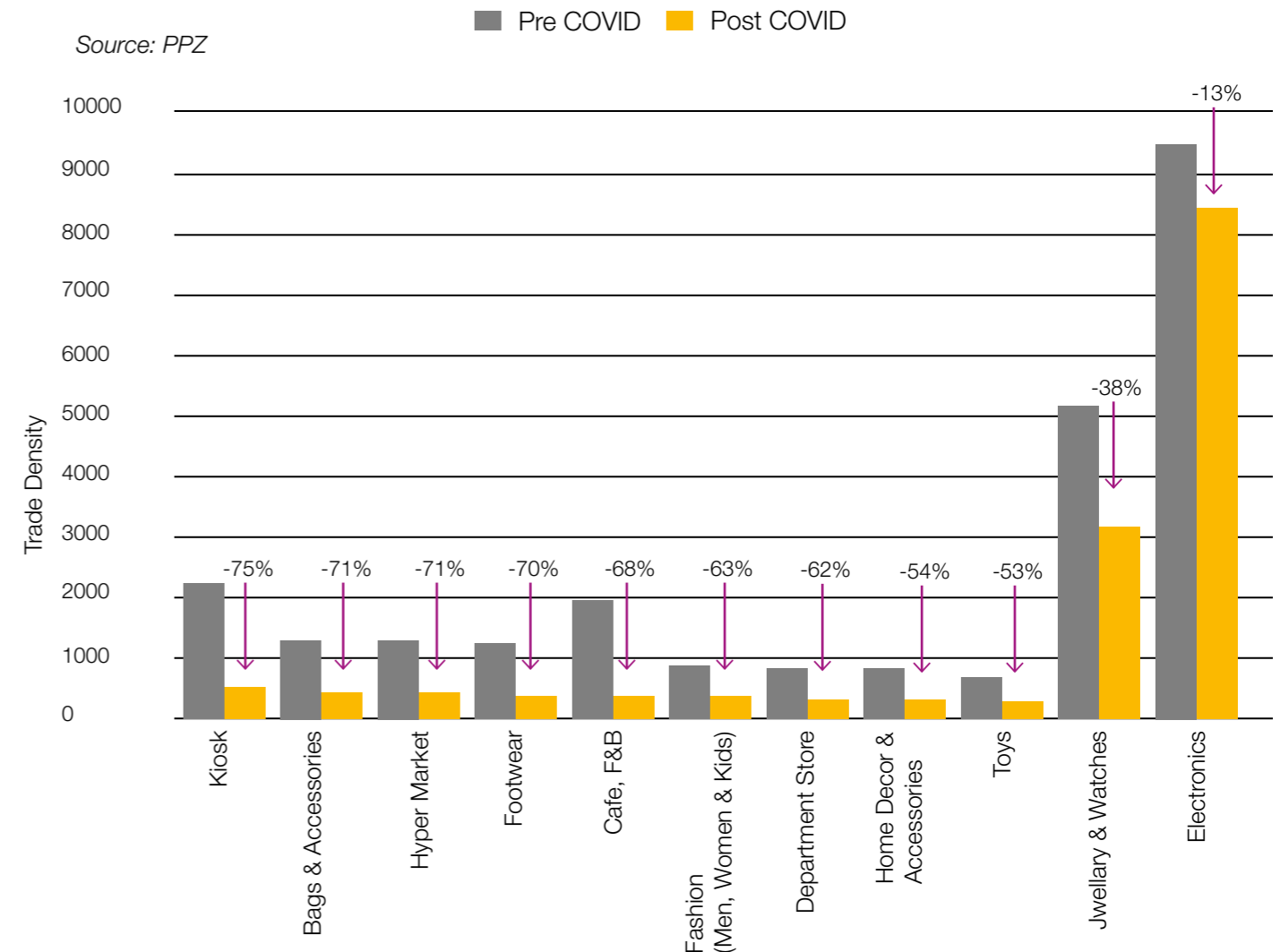


Source: RAI Business Survey- Round 6.

The recovery from June to August is marginally better and is anticipated to rise, though presently at snail's pace. The reopening of malls, pent up demand and festivities has seemed to have contributed to this slight increase and there is an optimism that business will pick up.

Shopping centres – like for like trends pre-COVID and post-COVID

- 88% of the brands are trading currently across the shopping centres.
- In August 2020, overall Trading density of the shopping centres is 58% of what it was in August 2019. However, there is a significant improvement of 44% in trading density in the month of August as compared to June and July 2020 showing signs of recovery.
- Average footfalls have dropped by 84%, but conversion rate is higher than Pre-COVID times.
- Spend per person has increased by 2.5 times of what it was during Pre-COVID time.
- Electronics has shown maximum recovery in this period as compared to all categories.
- The first category to come back during first phase of reopening are Grocery, Electronics, Jewellery & Home products.
- Fashion, F & B, Footwear, bags & accessories are worst hit categories. Cinemas and entertainment still remain shut and will take time to revive. Since cinema and entertainment are major crowd pullers in shopping centres, we believe that consumers will flock back to malls after they open.



Source: PPZ

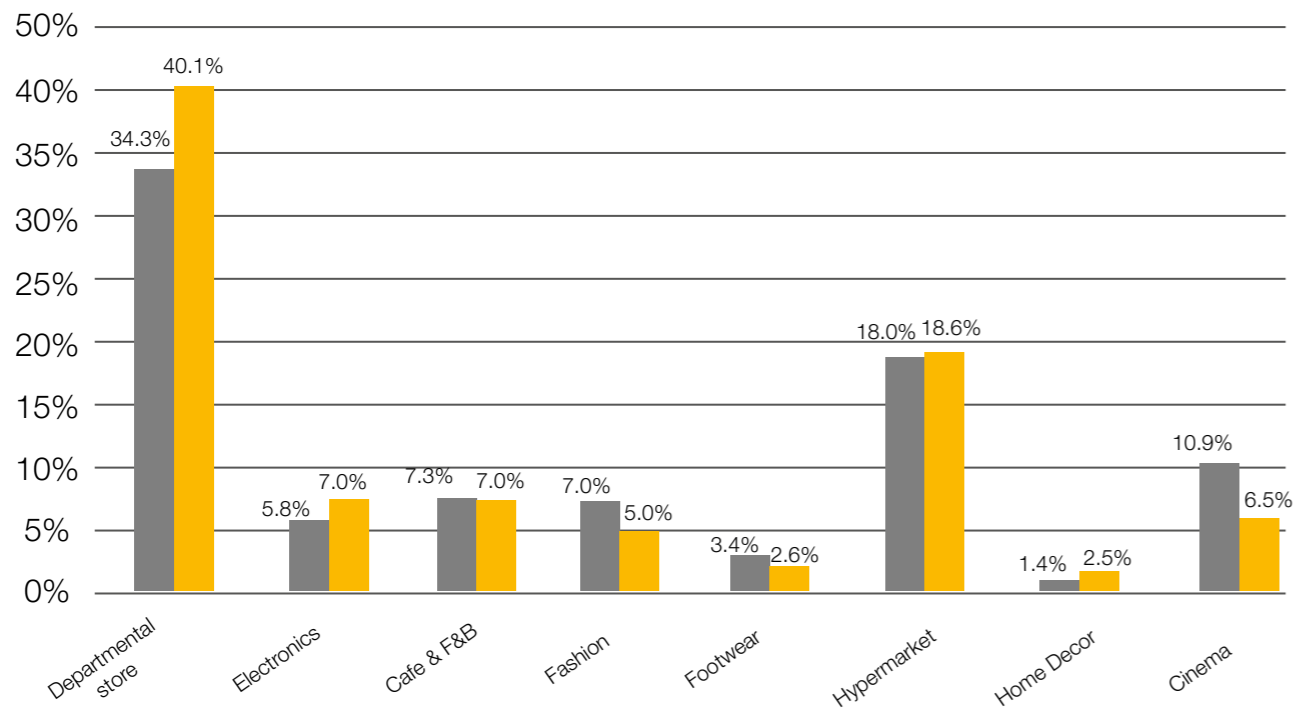
Key contributors to overall mall consumption

Key contributors to overall mall sales in July & August 2020 were mainly Hypermarkets, Departmental stores, and Electronics and Home products. Also, anchor stores like Pantaloons, Lifestyle and Max contributed to overall sales of the centre.

Percentage contribution of sales of various categories across malls pre-COVID and post-COVID

In Post COVID time, contribution of Departmental store, Electronics & Home products to overall mall consumption will increase as compared to last year while Cinema, Sports & footwear etc. will contribute less than last year.

Category wise contribution of sales to total sales of the mall pre-COVID and post-COVID



Source: PPZ

■ Pre COVID ■ Post COVID



Pandemic influenced cost drivers

Adopting to the pandemic, whether it be retrofitting the existing mall spaces to make it safe and COVID-19 free environment or incorporating design for the construction in progress malls or future proofing against possible pathogens, all contributes to costs towards construction, facility management or operations.

These costs are distributed over not only the actual build but mainly on the health and well being of the visitor as well as employees and staff. While most costs are taken on by the developer and in-mall retailers, consumers awareness on the 'new functioning' of the various kinds of malls and safety is important. Noted below are the various cost drivers that are pushing costs due to the pandemic.



Health and hygiene:

- Regular dis-infection of vehicles at entry, shopping trollies and baskets
- Health checks: Infra-red cameras to detect high temperatures
- Deep Cleaning of doors, escalators, lifts and other touch points
- Reduce touch points by including sensor doors, lift buttons operating with foot or mobile apps
- Multiple sanitation points, located at various points, foot controlled
- Social distancing, logistic markings at common areas
- Occupancy display systems at each retail outlet, customer to know if it is safe to enter, based on entry exit sensors
- Periodic fumigating, the entire mall.
- Provide disposable masks and gloves to shoppers
- Disinfected devices can be provided for easy check-out
- UV disinfection of escalators and railings



Store layout and logistics:

- More store spaces, with digital view of available products
- App based help and assistance at stores
- Virtual shopper assistance
- Extension of store hours
- Store apps designed to show the density of shoppers
- Options of virtual trials via apps
- Sampling ideas to be reinvented, example cosmetics to be made into a one-time use pouch
- Clothes for trial, to be sealed publicly sanitised and sealed again
- Create one-way isles
- Signages, and safety norms to be publicly displayed to communicate to the safety efforts
- More use of contactless payments



Collaboration of online and offline shopping:

- All stores to have more place for storage
- Allow for personal shopping offline and pick-up/delivery.
- Allow for kerb side pick-up online shopping
- Introduce kiosks to collect shopping.
- Inventory and tracking, a key to keep customers
- Introduce shopping appointment times to regulate footfall
- Innovative promotional offers



Staff employee benefit:

- Providing and ensuring use of PPE
- More sanitisation units
- Frequent breaks to ensure employees are washing and sanitising regularly
- Bettered health insurance
- Use of germ-free shelving
- Recognise and retain talented employees, their inputs are invaluable



Other design:

- Layout revision for all malls, including screens, floor marking for social distancing
- Extra on signage for logistics
- Footfall control monitored on drone cameras and CCTV footage
- Integrated management system to regulate crowds, entry and retail store visits
- Use of materials, covers easy to clean
- Retrofit or include in future HVAC systems with advanced air filters, ionisation systems
- Provide air compartmentalisation, by providing air curtains at doorways, Air gates at doors, overpressure above false ceilings
- Option of bio waste rooms and contactless disposal of garbage, via chutes
- Larger back of house areas to keep employees safe
- Use of UV lighting on the display and in HVAC ducts
- Have more transitioning spaces, especially at entry and exits



Possible new formats:

- Shopping with augmented reality- to bridge the gap between physical and digital
- Product customisation- a crowd pleaser
- Visual search options
- Digital marketplace growth
- Social shopping, use of platforms like Instagram groups for shopping
- Keep ethical and private based brands, anchors are very important
- Other methods of shopping- like google shopping, allowing comparing, easy check of options available

Impact on construction costs:

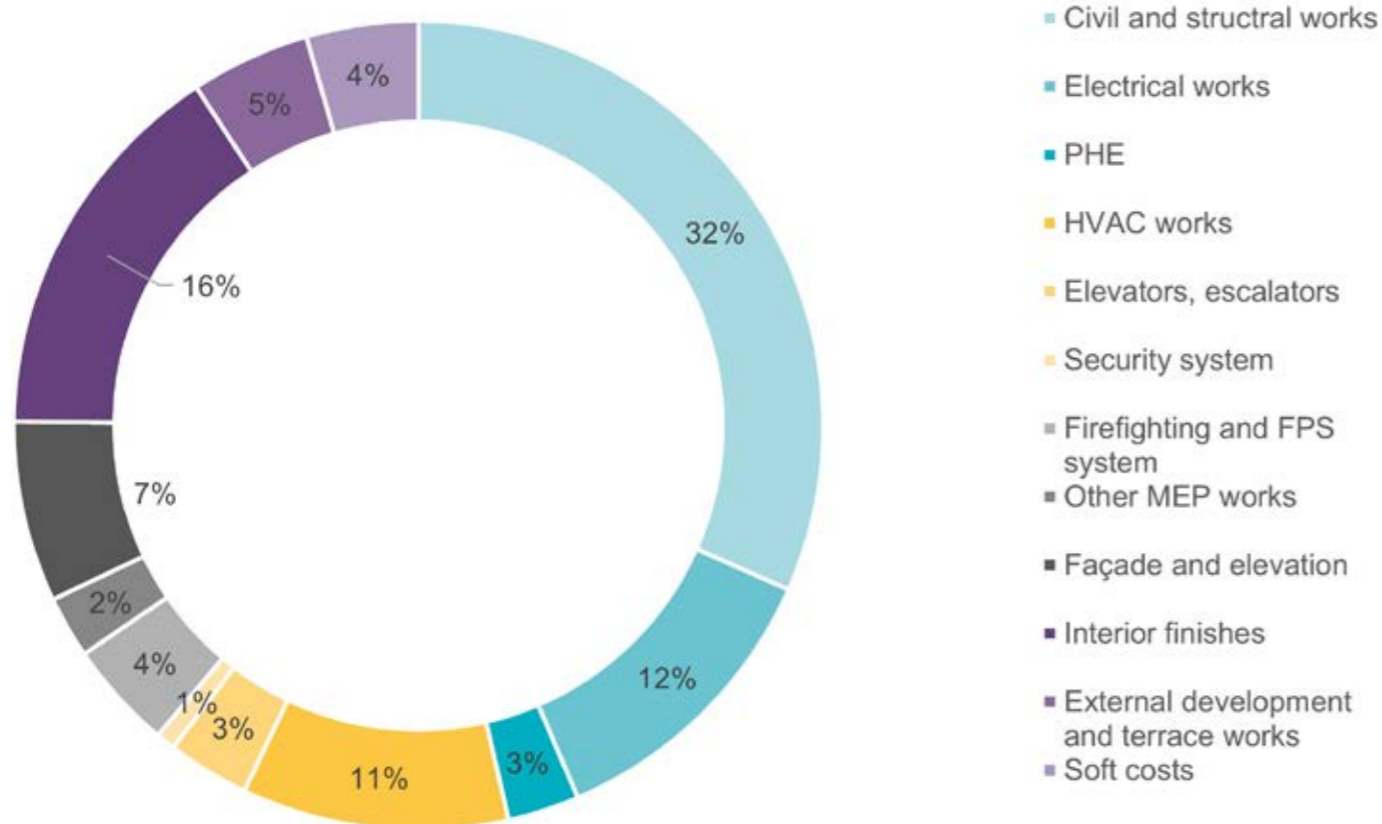
At the onset, the construction costs are set out to increase based on the materials and labour cost impacted from the pandemic as a result of shortage of labour, supply chain rearrangements, transportation restrictions and reduced productivity. Coexisting with the pandemic requires rethinking design, retrofit and management which incurs cost to the developers. Strategies are therefore to be developed to understand how to attract footfall to keep the business running. The estimated cost impact is 3-5% increase.

Major cost components:

Supply chain disruption, increase labour component, increase in preliminaries towards health and safety measures on site, personal protection equipment and labour camp maintenance. Low productivity caused by social distancing norms.

Some of the examples are either replacement or adaptation of Sensor based sanitary fittings such as water closets and taps, changes in HVAC systems such as Air filters/ Bipolar plasma system for ducting/ uV germicidal lamps in ducts and foot pressed elevator buttons/ App operated elevator system software/ Door frame metal detector (DFMD) with Infrared cameras/ Occupancy tracing system (common areas only) amongst others.

Elemental cost breakdown for a typical mall



Source: Gleeds data base

The below table indicates the cost impact on construction costs accounting for the COVID-19 impact in the 3Q 2020.



The road to revival

To save the failing growth, shopping centres are to pick themselves up and re-strategise and re-look into their core functioning, which is likely to bring the degrowth into the growth band.

Online and offline shopping integration, OMNI channel

An Omni-channel retail strategy is an approach to sales and marketing that provides customers with a fully integrated shopping experience by uniting user experiences from brick-and-mortar to mobile-browsing and everything in between.

The last few months has witnessed a huge shift in the retail industry as technology has started to play a critical role in consumer behaviour. The modern customers now expect a quick, convenient and a seamless experience regardless of how and where the purchase is made.

Enterprise retailers have also understood the importance of integrating their online and offline sales channels and providing a seamless Omni-channel experience to the customer.

Retailers at shopping centres are encountered with multiple challenges in order to successfully implement an Omni-channel strategy. Brands, more often, have a non-agile and silo-ed IT infrastructure with a low level of integration between the disparate system. When collaboration is limited, delays frequently set in, and render imbalance in the performance of one or the other sales channel. Moreover, one of the critical components for a truly Omni-channel experience is how the ecosystem synchronises, contributes and collaborates to increase efficiency of each function. Hence sales channels, payment systems, fulfilment and delivery partners and customer support

teams need to work as a comprehensive force to optimize online and offline integration.

To bridge the gap between Omni-channel adoption and execution and integrate multiple cross channel sales system, an agile technology platform that frees brands to focus more on customer engagement and provide seamless shopping experience is required.

Traditional media like print, radio and outdoors have taken a backseat and the budgets are focused towards Omni-channel marketing, almost 60-70% spends which were allocated for traditional media has now shifted towards understanding google analytics, trends and thereby reaching customers through Instagram, Facebook and WhatsApp platforms.



Customer engagement & strategies

Keeping a real-time pulse on changing preferences and rapidly innovating to redesign journeys to connect with customers.



Reopening strategy (timeline) – shopping centres

Post lockdown, malls across major cities have started reopening in a phased manner. Retailers along with mall operators are working together on new strategies to regain footfalls and consumer confidence. Shopping centres have come up with new SOP's, social distancing norms, Omni channel strategies & revised financial models to fight this crisis.

Phase 1 (June 2020 - Sep 2020)

- Limited Operating hours shall be adhered as per govt. directives
- Categories like hypermarkets, personal care, home furnishing, infant care, Apparel, sportswear & footwear will be opened initially followed by Salons & Gyms.
- F & B allowed for takeaway only in the initial period and then shall open with limited occupancy.
- Food courts become operational as per COVID norms.
- Financial strategy – Combination of revenue share and partial rent

Phase 2 (Oct 2020 – Mar 2021)

- 90% occupancy achieved in malls
- Festive season would bring customer back
- Cinemas and Entertainment centres as per COVID norms
- Overall consumption across all categories is expected to achieve 60% of the Pre COVID budget during phase 2 of reopening
- Financial strategy – Regularizing financial structure impacting retailers & Mall owners

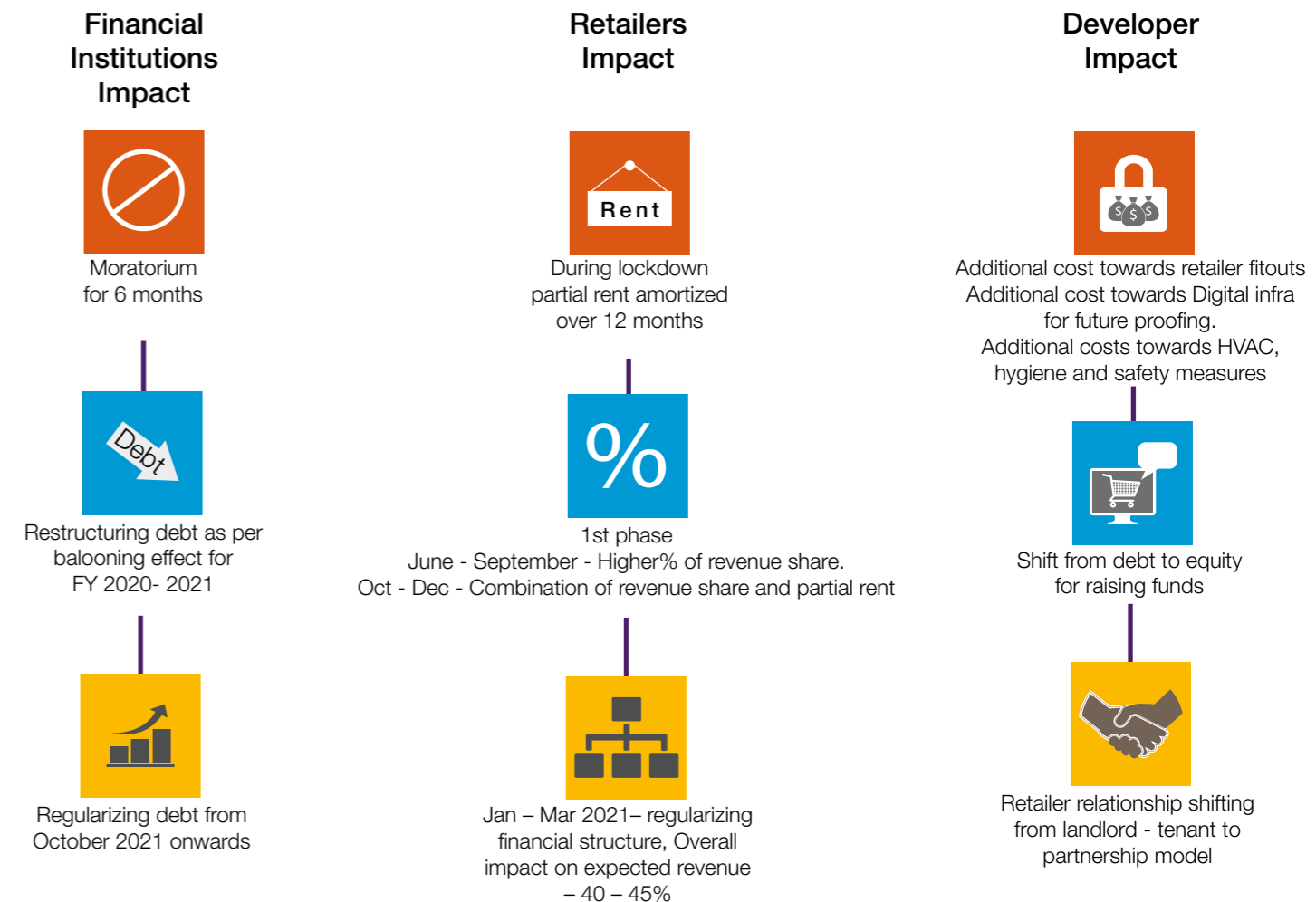
Mapping consumption trends for upcoming months (Oct – Nov 2020)

- We believe that certain categories in the malls will come back faster than other categories in next few months which will eventually increase their contribution in overall consumption of the malls.
- F & B and Fashion will bounce back faster and will increase their percentage share to sales by 10 – 15 % as compared to sales in June – July.
- Hypermarket, Departmental store and Home décor are already contributing largely to the sales of the centre and will show similar trends in consumption for next few months.
- Cinema will take longest time to revive in terms of consumption even after restrictions are relaxed.

Consumption trends for upcoming months



New financial strategy



The business perspective

Operational malls – perspective of financial partners (equity/ debt investors)

Pre-COVID-19		Post-COVID-19
7.5% - 8.5%	Valuation Cap Rates (based on location and growth potential)	9% - 10% at least 1% variation
1 year forward NOI was considered	Net Operating Income (NOI) (basis for valuation)	NOI for FY 19-20 is discounted based on a perceived stagnancy/ decline in retailer sales until FY 22
7.5 to 8.5 times NOI	Lease rental discounting (LRD) eligibility (based on location and tenant profile)	6 to 7 times NOI
9.5% to 12% (based on mall and retailer profile)	Interest cost on LRD	Has marginally reduced for some projects but not helped the mall owners, given the significant decline in business
Average 6% - 8% p.a	Growth in trading densities	Degrowth upto 50% in FY 21 and 20% expected until FY 22
All costs covered from collections	Impact on Common Are Maintenance (CAM)	With reduced CAM payouts from retailers and increased safety & hygiene measures, there is an under-recovery of 15-20%



Under development malls – perspective of financial partners (equity/ debt investors)



Launch delays by **9 to 12 months** – approx. **1.5% to 2.5%** reduction in IRR based on a holding period of **2 to 4 years** post operations.



Project delays- labour shortage, supply chain disruption, lower productivity. Gleeds' estimate a **3.5%** increase in overall cost of construction.



Increase in facility management costs by **2%-3%** for additional safety measures for post-COVID environment.



New tech infra- high cost increase installed for customer tracking and data management from **Rs.100/- per sqft to approx Rs.500/- per sqft**. This promotes sales growth YoY with online penetration increasing over the next 5-10 years



Renegotiation of rentals by signed retailers, delay in closing of unsigned stores. **10% rent reduction** for the 1st year of operations, typically results in a **2% decline** in projected IRR*.



For highly levered projects, **refinancing of construction debt** becomes challenging given the double whammy of reduced rent and reduction in the LRD eligibility.

*IRR Internal Rate of Return

The future of retail

Emerging trends post lockdown

- High conversion shopping rate
- Creating virtual mall experience
- Increased face value
- Rise of local & community centred brands
- Proactive health
- Online presentation of self – personal building
- Selective travelling
- Regional & sub regional cuisine will accelerate
- Digital activation – creating online mall inventory & trading
- Retailers communicating with customers directly via omni channel
- Malls on wheels
- Discounts, exchanges and free products
- Free delivery and minimum orders
- Omni channel for top line generation
- Evolved tenant mix
- Mobile food courts
- Sanitizing touchpoints
- Reduced store size
- New customer engagement strategies
- Reduced seating capacities at multiplexes, FEC and restaurants

The key to consumer confidence

The most important thing is reassuring customers that malls are a safe place to go out for shopping. Consumer confidence can be brought back by creating a safe and secure environment, keeping convenience & comfort on priority while creating an engaging experience.



Convenience & comfort

- Directional signages
- F & b ordered & delivered within & outside the mall
- Shopping delivered home
- Contactless shopping & payments
- Tech based appointments to visit malls / stores
- Virtual mall platform to engage with customers



Engaging conversations

- Digital marketing
- Virtual entertainment
- Digital shopping
- Digital community services
- Creating digital home influencers



Creating safe environment

- Backend & frontend sanitization
- Sanitization & hygiene protocols for customers
- Social distancing protocols
- Crowd management protocols
- Mechanical sanitization
- Customer and staff circulation protocol
- Contactless circulation experience



Conclusion

The shopping centre in India have always been the hub for socializing, movie lovers and family outings. The present pandemic put a 'spoke in the wheel' for the growth of the retail sector, however, with the economy slowly recovering, employment is set to rise, which might break the present reservation of spending that has cultivated over these unprecedented times.

Contactless shopping, digitization, a robust system demonstrating a safe environment with health and safety implementations in the present malls are key to winning the consumer confidence. This approach in turn will increase footfall and promote the recovery of the retail sector in months to come. Retail is also to be made more attractive with optimum pricing, revised tenant mix and development approach and changes in business models to save the present business prospects.

The movement of people to tier-II cities and the options of working from home, promotes demand, in these locations, as a potential location for new shopping centres/malls. Relevant research, assessment of the catchment area, the longevity of migration are some of the factors that should be carefully investigated before the cautious planning of expansion strategies, which could prove beneficial to developers looking to expand their business.

The online shopping experiences, which picked up in the pre-COVID era, seamlessly integrated into the present will act as a force multiplier to the retail sector for co-existing with the brick and motor shops. The significant growth in e-commerce accelerated in the present circumstances is the thread that is holding the retail together. Whilst, the adaption to change in the way of living continues, complete recovery is expected after a vaccine is found or if the virus is completely contained. Travel restrictions and regulations on large social gatherings induce social meetups in smaller locations closer to home. The pleasant ambience and large spaces with entertainment provide an appropriate getaway. Life will continue and pent up retail demand, the need to socialize and the thirst for entertainment outside home, will provoke people to venture out, and embrace the experience in its new resilient form.

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For any further queries please contact us.

Pioneer Property Zone Services Pvt. Ltd.

Sonal Shrivastav

Director – Asset Under Development
(AUD) & Business Development(BD)
Sonal.shrivastav@ppz.co.in

Pallavi Kukdolkar

Market research & business
analyst
Pallavi.kukdolkar@ppz.co.in

Gleeds Consulting (I) Pvt. Ltd

Vishal Shah, M.S. (Bld. Const.), MRICS

Director
Phone: +91 98202 60169
vishal.shah@gleeds.in

Sushma Wilson, MRICS

Executive Cost Manager
Phone: +91 63668 24399
sushma.wilson@gleeds.in

You may also contact us on insights@gleeds.in

This issue was compiled by Gleeds India I&A with contributions from Ashish Pimpalkhare, Sanjiv Kumar Ganesh, Bhagyashree Parikh, Padmini G, Kiran Pawar and Animaraj Toppo.

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