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# THINK INDIA

## **THINK RETAIL** 2022

Reinventing Indian Shopping Malls

## FOREWORD



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Chairman and Managing Director  
Knight Frank India Pvt Ltd

Amidst inflationary concerns and volatility in the global economic situation, India stands on a resilient growth trajectory. It remains the world's fastest growing economy despite the multiple interest rate hikes. In the past two and a half years, the pandemic has left an indelible mark on all real estate asset classes. Since then, however, the sector has witnessed a sustained recovery in demand for both residential and office asset classes. And a similar trend has continued to play out in H1 2022.

Even before the pandemic, since the last two decades in fact, India's retail sector had been undergoing structural changes. With evolving consumer spending patterns and rising disposable incomes, the opportunities in organized retail prompted large-scale development of shopping malls in the country. Lined with specialty retailers, shopping malls started dotting the retail landscape of the country's top cities in the mid-1990s. As the 'mall culture' gradually pervaded the retail marketing scenario, especially in the metros, it heralded the beginning of the modern retail movement in India. This led to an increase in institutional investments in the retail sector over the years, charting a new course for the introduction of India's first retail Real Estate Investment Trust (REIT).

The COVID-19 pandemic, however, disturbed the retail sector's dream run. With each passing wave of COVID, the retail, travel and hospitality sectors took a severe hit. The accompanying restrictions on mobility made the bounce back that much more difficult. It was only when the second wave had passed, that a visible recovery in consumption in shopping malls in the top eight cities came to the fore. The pent-up demand conversion across categories only goes to prove that there is ample action in the brick-and-mortar retail stores in shopping malls. Many international brands are entering the market again. The existing brands are also working at reinventing themselves to keep up with changing consumer preferences in current times.

To negate the prevailing myths about shopping mall performance during the pandemic, Knight Frank India conducted an extensive primary research survey in the summer of 2022. The idea was to gauge and understand the operational mall stock, retailer footprint, occupancies, experiential retail formats and outlook regarding potential consumption growth in the existing and upcoming malls in the top eight Indian markets.

With this backdrop, I present to you "Think India Think Retail 2022", our latest research publication encapsulating the current and future outlook on Indian shopping mall performance. This thematic publication is a survey-backed take on this much scrutinized asset class. In this edition, we endeavor to provide a holistic view on growth opportunities in the shopping mall landscape.

The report also highlights the available repurposing opportunities in India's underperforming shopping malls. I hope you find the report to be a valuable tool in understanding the organized retail real estate ecosystem. I am thankful to all industry participants who shared their valuable insights to help us prepare this report.

Stay healthy and be safe.

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# ABOUT THE STUDY

## DATA METHODOLOGY

The shopping mall story started unfolding in India in the 1990s with just a handful of mall developments. In the past two decades, numerous malls have sprung up across various Indian cities. For this study, we have captured 271 operational shopping malls spread across India's key eight metropolitan regions – Ahmedabad, Bengaluru, Chennai, Hyderabad, Kolkata, Mumbai, National Capital

Region (NCR) and Pune. Based on key success parameters such as mall size, vacancy rate, anchor tenant profile, zoning, mall management, parking facilities and quality of public transportation, the entire mall stock captured has been categorized into 3 broad categories as shown below:

Criteria	Grade A	Grade B	Grade C
Gross Leasable Area sq m (sq ft)	>46,451 (500,000)	9,290-46,451 (100,000-500,000)	<9,290 (<100,000)
Vacancy	0 - 9%	10 – 40%	More than 40%
Anchor Tenants	Department Store/ Hypermarket/ Gourmet Store	Department Store or Hypermarket	No anchor tenants
Floor-wise Zoning of Brands	Strict Implementation	Part Implementation	No Implementation
Frontage and Visibility	Excellent	Good	Poor
Mall Management*	Excellent	Good	Poor
Parking Facilities	300 vehicles and above	200-300 vehicles	Limited or no parking facilities in the area
Quality of Public Transportation	Direct and easy access from all modes of public transport like cabs, buses and metro stations	Easy access from all modes of public transport like cabs, buses and metro stations	Weak access from all modes of public transport like cabs, buses and metro stations

\* Includes Safety and Health protocols (Washrooms/Common Area Maintenance/Safety Equipment Awareness/Security Staff for consumers at every crucial mall check point)

Note: Mall Grading is a combination of the above criteria and not one parameter alone.

Source: Knight Frank Research

## PHYSICAL SURVEY OF SHOPPING MALLS

In the absence of any reliable information with respect to organised retail real estate in India, we treaded the previously uncharted territory of conducting a physical survey of each and every shopping mall taken into stock in our target markets. The physical survey of shopping malls was conducted during the summer of calendar year 2022. By mapping each vacant store individually, we were able to negate several myths around mall occupancies in current times. While pandemic related concerns may put some already struggling, poor-quality malls completely out of business, the future of Grade A malls in India remains bright as they continue to bustle with footfalls surpassing pre-Covid levels and remain hotspots for new retailer entry and expansion.





# INDIAN SHOPPING MALLS

## ABIRD'S EYE VIEW

### SHOPPING MALL STOCK OVERVIEW

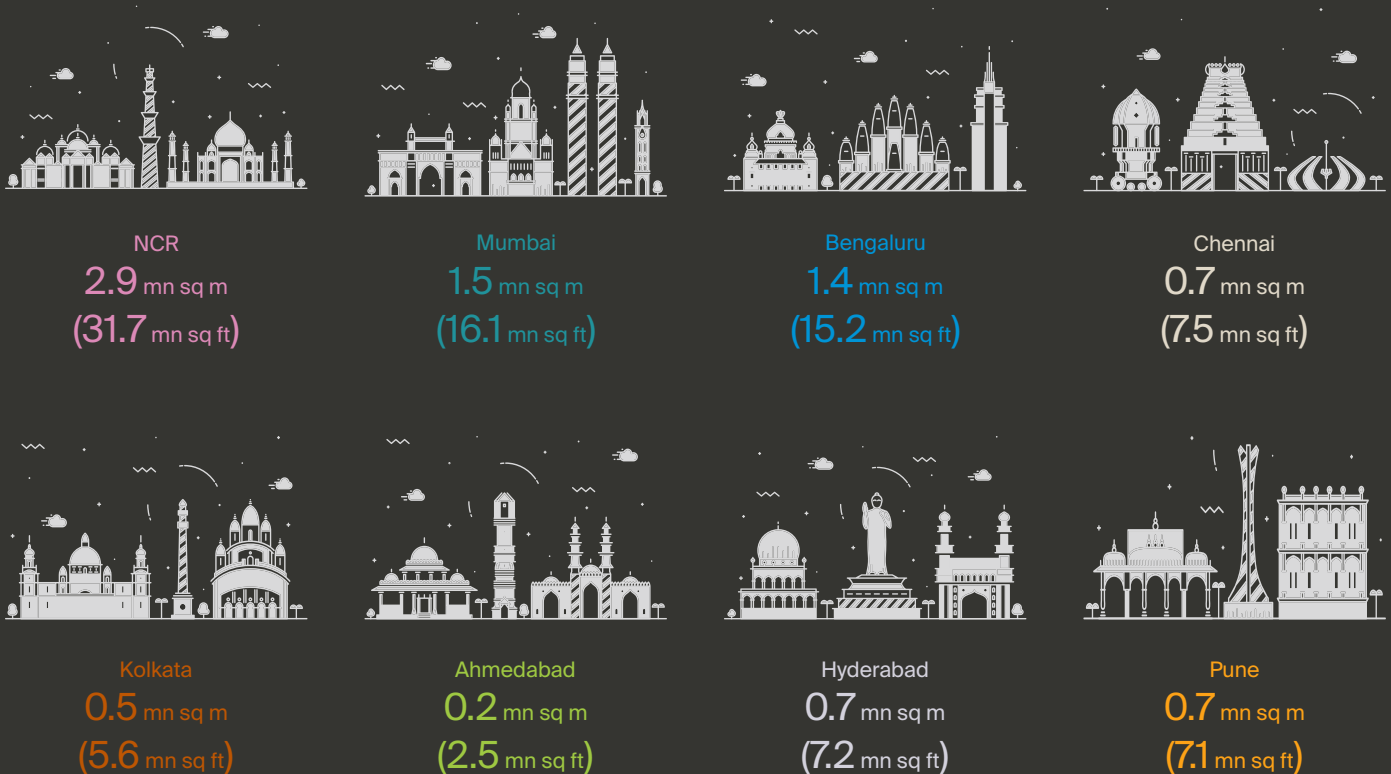
India has a total mall stock of 8.6 mn sq m (92.9 mn sq ft) spread across 271 operational malls in the top eight markets – Ahmedabad, Bengaluru, Chennai, Hyderabad, Kolkata, Mumbai, National Capital Region (NCR) and Pune. As on H1 2022, NCR contributes nearly one-third or 34% of India's total mall stock, which is the highest across the top 8 markets. Mumbai contributes 18% or the second highest mall stock to the top 8 markets while Bengaluru contributes 17%.

Figure 1

### Operational Mall Stock in India

Total Operational Malls: 271

Top 8 Cities **8.6** mn sq m  
(**92.9** mn sq ft)



Source: Knight Frank Research

Note: Distribution represents Mall Stock till H1 2022

Figure 2

## Grade Wise Operational Mall Stock Distribution

Grade A Mall Stock  
52 malls



Grade B Mall Stock  
94 malls



Grade C Mall Stock  
125 malls



Source: Knight Frank Research  
Note: Distribution represents Mall Stock till H1 2022

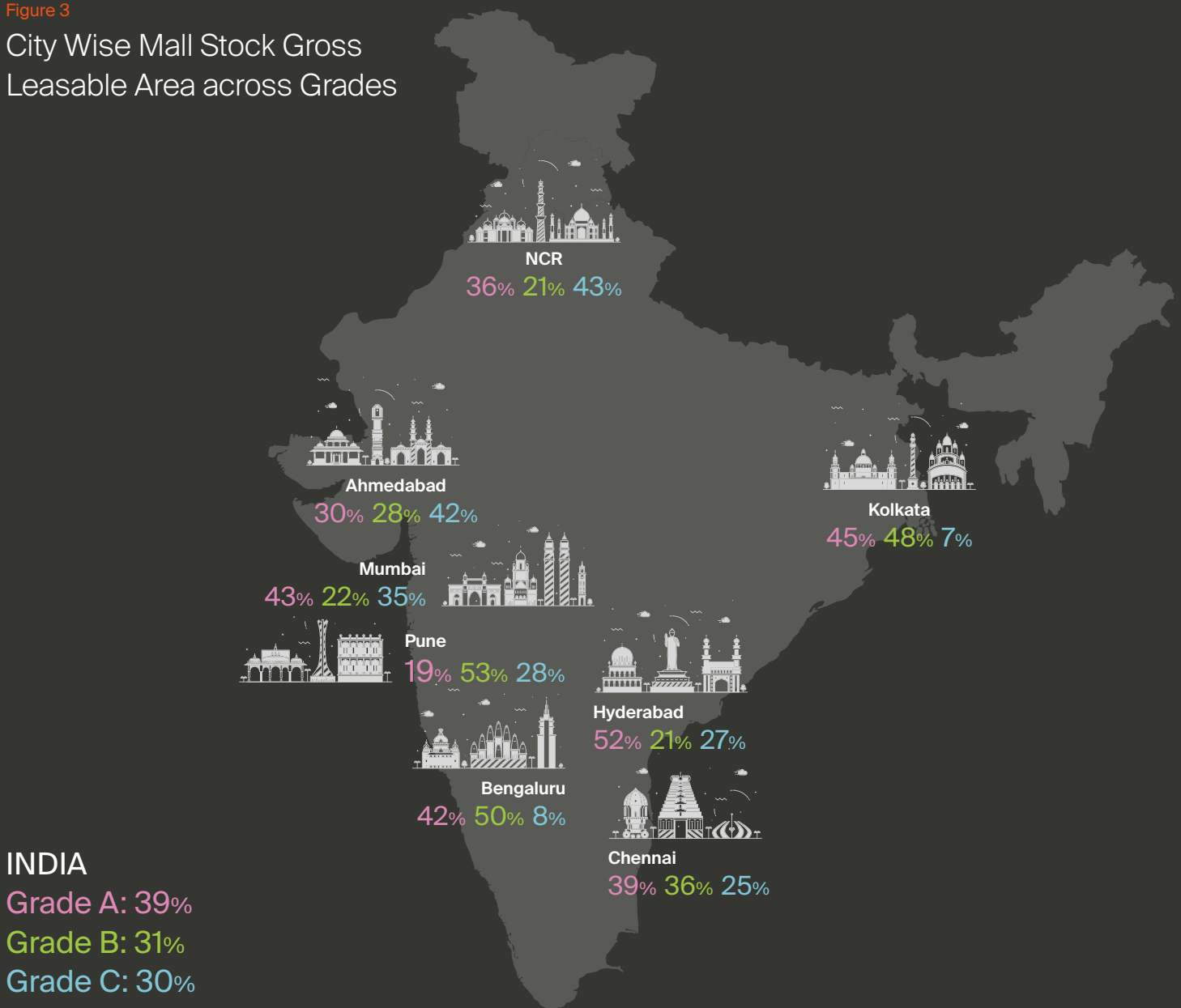


Since the mall culture got a foothold in India in 1990s, the evolving distribution of mall stock across Grade A, B and C in the top 8 markets is redefining the country's retail landscape. As on H1 2022, Grade A mall stock, with high occupancy, strong tenant mix, good positioning, and active mall management, contributed 39% to the overall mall stock with 3.3 mn sq m (36.0 mn sq ft). Grade B mall stock, with decent

occupancy and tenant mix, contributed 31% with 2.7 mn sq m (29.1 mn sq ft). Grade C mall stock, on the other hand, with high vacancy rates, poor tenant mix, relatively poor mall management, contributed the lowest with 30%, nearly 2.6 mn sq m (27.8 mn sq ft) in the top 8 markets.

Figure 3

### City Wise Mall Stock Gross Leasable Area across Grades



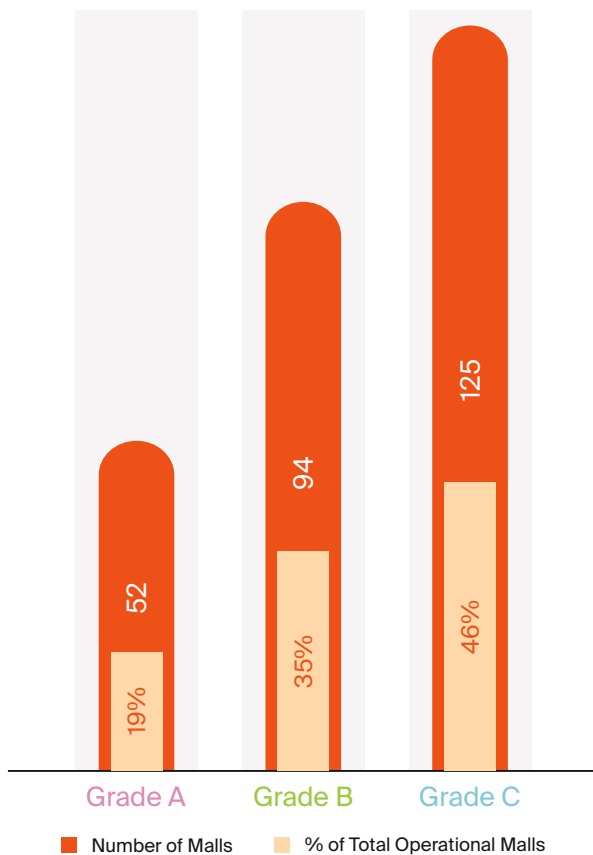
Source: Knight Frank Research  
 Note: Distribution represents Mall Stock till H1 2022

NCR accounts for one-third of the total operational mall stock, and Grade A contributes 36% to it, Grade B contributes the lowest with 21%, and Grade C contributes the highest with 43%. In Mumbai, 43% mall stock is in the Grade A category, 22% in Grade B and 35% in Grade C category. Bengaluru contributes 17% mall stock across the top 8 markets and holds 42% Grade A mall stock, 50% Grade B mall stock and only 8% Grade C mall stock. Bengaluru's Grade C stock volume is the lowest across the top 3 markets.

Whilst the mall stock comparison by Gross Leasable Area shows highest concentration in Grade A, an analysis of the number of operational malls in stock depicts a different picture. Of the total 271 operational malls, 125 belong to the Grade C category. Malls constructed in the early frenzied years of development with poor design and high vacancy fall under this category, and are failing to attract retailers or reinvent themselves to keep up with changing times. Grade C malls comprise 46% of the total mall count in India as on today.

Figure 4

### Mall Grade Comparison



Source: Knight Frank Research

Note: Distribution represents Mall Stock till H1 2022



**Rajneesh Mahajan**  
Chief Executive Officer, Inorbit Malls

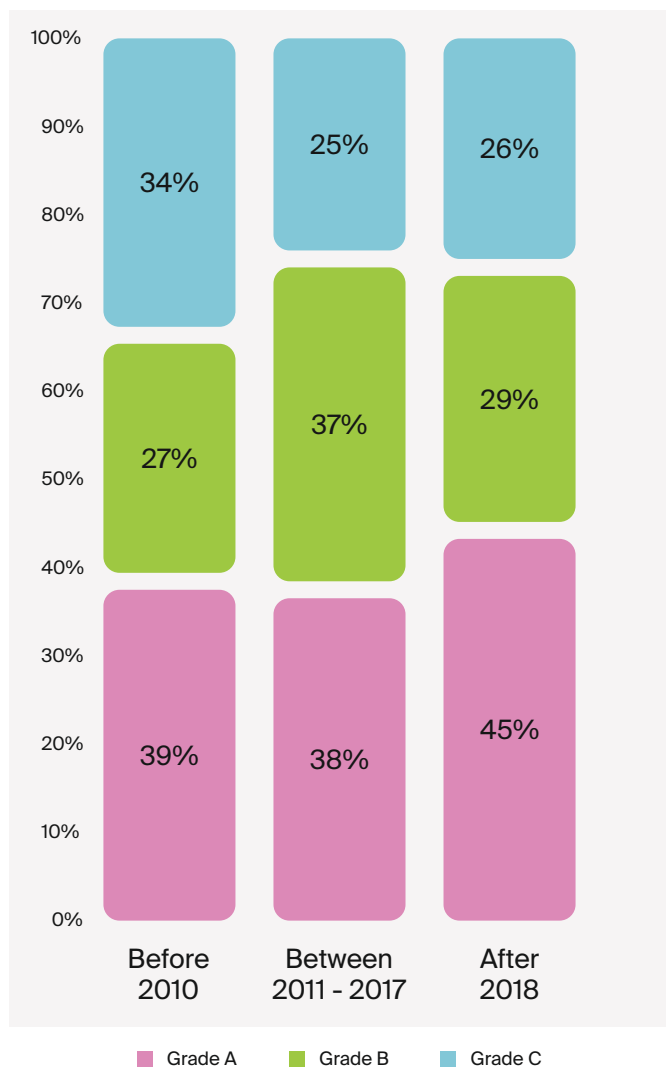


Shopping malls are transforming to social spaces catering to their respective micro-markets. Post Covid, the recovery in operational metrics of malls has been very healthy with consumption growth of ~20-25% compared to the same month in FY 2020. With this large scale pent-up demand, shopping center development has seen a new rigor after being at a standstill for almost 2 years. In the next 12 months, we expect an addition of 8-9 mn sq ft of mall space as against the historic annual average of approximate 4-5 mn sq ft. The demand for quality retail space continues to grow with retailers expanding to new markets and many international brands entering India. With demand for quality space exceeding the mall supply, retailers are taking position in high streets. This is not just limited to the Tier 1 markets. Tier 2 & 3 cities are also ready to support mid to large scale mall developments. We are witnessing a good upcoming supply in Tier 2 and 3 cities.



Figure 5

### Mall Supply Distribution by Grade



Source: Knight Frank Research

Note: 'After 2018' denotes Mall Stock from 2018 till H1 2022

Before 2010, Grade A mall construction had laid the foundation for the most prominent and successful destination malls built on prime land parcels that are in operation today in the top 8 markets contributing 39% of the overall supply reported in the period. Grade B mall supply contributed nearly 27% of overall supply during the period. Grade C mall supply came mostly from new and inexperienced developers entering the retail market with unreal expectations. This supply constituted 34% of the total supply before 2010. Today, a vast proportion of this space is used either for commercial purposes or is under various stages of repurposing or demolition.

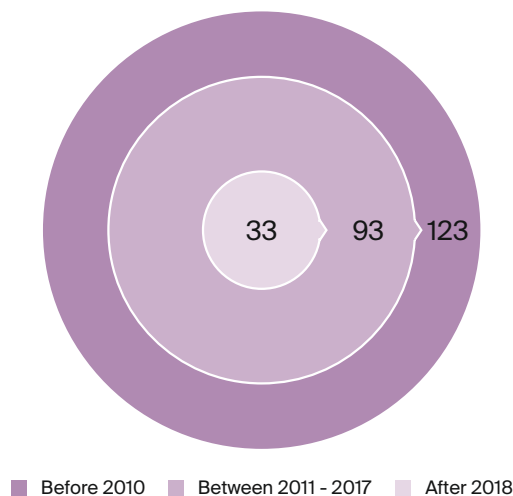
During the 2011-2017 period, Grade A and B mall supply contributed 38% and 37% to the mall stock respectively. The Grade A mall supply share had inched down marginally to 38%, and Grade B mall supply had risen to 37% as many neighbourhood malls and small shopping centres came up on the retail scene in India. It is noteworthy that though the Grade A mall supply share inched down in percentage terms, developers in this period expanded to previously untouched suburban and peripheral areas in the top 8 markets and experimented with large format malls. The share of Grade C mall stock on the other hand, reduced drastically in this period to 25% as the slowdown in mall culture during the time of global financial crisis in 2007 rendered many badly constructed shopping malls financially unviable. Grade C malls are still operational in the top 8 markets and landlords and strata owners are still struggling to monetise them. After 2018, the mall quality improved in India as Grade A mall supply rose to 45% of the overall supply during the period, the highest across all timelines considered, as organized players with right expectations entered the mall business, and established mall developers continued to expand their footprints in the top 8 markets. Consequently, the combined share of Grade B and C mall stock reduced to 55% as compared to the previous periods.

### MALL DEVELOPERS ENTERING THE RETAIL PLAY

The mall scenario in India has witnessed a profound change with organized developers entering the retail play with the right expectations.

Figure 6

### Total Developers Active in Mall Development in Top 8 Cities in India

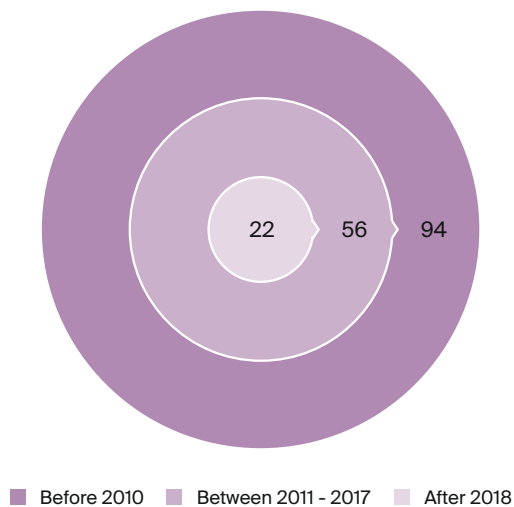


Source: Knight Frank Research

Note: 'After 2018' denotes Total Active Mall Developers from 2018 till H1 2022

The pace of development activity in the mall development business was gaining momentum due to the absence of entry barriers until the global financial crisis hit. Post global recession, the active players dropped as many were forced to leave the business due to lack of expertise in running a mall and mounting debt obligations. According to our findings, of the total 123 developers who were active before 2010, only 93 remained active between 2011-2017. After 2018, the number reduced further and at the end of the H1 2022 period, it stands at 33.

**Figure 7**  
New Developers Entering the Mall Development Play



Source: Knight Frank Research  
Note: 'After 2018' denotes New Mall Developers from 2018 till H1 2022

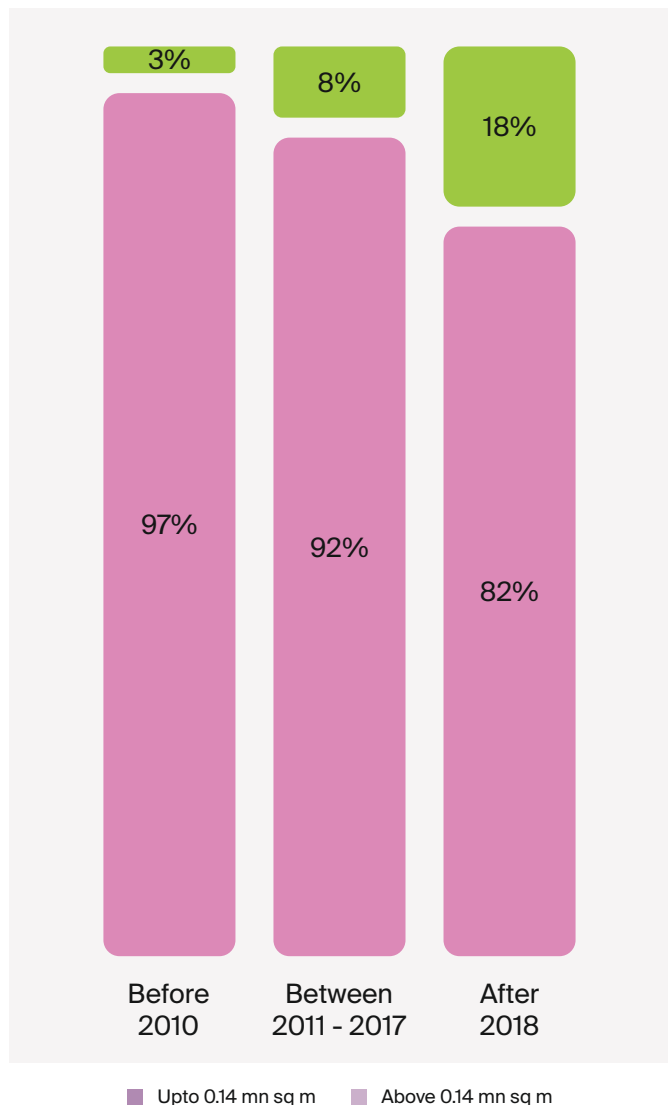
Of the total number of developers engaged in mall development across the top 8 cities, the number of new or unique players entering the market has also shrunk drastically over the years. Invigorated by healthy economic growth, 94 unique mall developers had completed and launched their first retail mall in the period before 2010. However, the impact of the global financial crisis on the Indian economy in 2008 and 2009 disrupted the pace of new players' entry during 2011-2017. Fast forward to 2018, only 22 new developers successfully made it to mall development play.

**SIZE OF MALL DEVELOPMENTS**

Having burnt their fingers in the late 1990s' and early 2000s', developers – both new and experienced, have been approaching mall construction cautiously. Reasonably so, as mall developments have undergone a meaningful change in the past decade. Mall

developers have understood the importance of gearing themselves to cater to diverse consumer needs as well as the importance of having a good tenant mix across categories. Focus on easy accessibility and providing consumers with an unmatched community and entertainment driven experience, are some of the key elements redefining the size of mall developments constructed in recent years.

**Figure 8**  
Key Trends in Size of Mall Developments across Top 8 Cities



Source: Knight Frank Research  
Note: 1. 'After 2018' denotes Mall Developments from 2018 till H1 2022  
2. Based on Total Built-Up Area (BUA) of Malls

There has been a gradual decrease in the share of mall completions with sizes less than 0.14 mn sq m (1.5 mn sq ft). Compared to the period before 2010, the supply in this basket has decreased from 97% to 92% between 2011-2017, before further reducing to 82% in the period after 2018. Although the share of supply in this bucket size decreased substantially, it remains dominant overall with more Grade A and Grade B malls coming to the market. The new supply in recent years in this bucket has been in the neighbourhood malls category with a good tenant mix compared to similar sized developments of the past.

Neighbourhood malls are not a new concept in India but one that has been reinvented over the years. In recent years, the emerging trend with mall developments has been coming nearer to residential catchments to provide easy accessibility. The neighbourhood malls are designed to serve consumers of nearby micro-markets and are becoming popular yet again because of the convenience they offer to consumers, especially the luxury of being accessible even during weekdays.

While it may seem like this category of shopping malls may be the new way forward to reinvent the shopping mall experience for consumers, a major challenge faced by neighbourhood malls is the expected rental threshold. If such an asset does not meet the rental income requirements, developers are left with no choice but to go for the strata sold model to support their high investment in land as they are constructed in prime localities. Unlike bigger malls, where institutional investors or lending institutions may come to the rescue, neighbourhood malls often fall prey to strata arrangements if they are unable to pull in the crowds.

The share of mall completions in the size range above 0.14 mn sq m (1.5 mn sq ft) has been gradually increasing from 3% of total mall supply before 2010 to 8% between 2011-2017. Between 2018 to H1 2022, the size of such mall developments jumped to 18% of total mall supply. These large sized mall developments now command nearly a third of the entire mall stock in India. Increase in demand for large spaces by foreign retailers is the key reason behind this increase in size as master developers in Indian real estate identified this as a lucrative opportunity and were able to scale the size of their developments on the back of experience with this asset class and financial wherewithal. However, such mall supply has remained fragmented over the past two decades as only a handful of developers have the expertise to experiment with such expansive and unique retail formats. Most developers do not have the conviction to put their skin in the game for large-scale developments as they are unsure of success in a dynamic shopping environment laced with e-commerce popularity and changing consumer behaviour post COVID-19 outbreak.



**Pushpa Bector**  
Executive Director, DLF Retail



Retail real estate is staging a strong comeback with new mall supply available across the country. The restored demand for retail spaces is leading to high occupancy levels in malls, thereby increasing the leasing volumes. Brands are not just looking at expanding and opting for malls vis-à-vis standalone stores but are also increasing their store sizes as they continue to draw interest from consumers and investors. Quickly adapting the revamped approach, developers are going a level higher in offering an enhanced and holistic experience to the customers. Such an approach also attracts retailers who eye high-end products for their brand establishment or expansion. Therefore, malls will continue to contribute to the growth story of the retail industry.

We, at DLF Malls, know the importance of the top-tier markets in charting growth in the sector, and have recently announced 6 new properties as part of our robust expansion plans including 3 premium neighbourhood plazas such as the DLF Summit Plaza in DLF 5, Gurugram, DLF Midtown Plaza in Moti Nagar, Delhi, and Galleria 91 in Sector 91, Gurugram; along with 2 office retail spaces, namely The Hub in Chennai, and DLF Cyber Park in Gurugram. DLF will also be entering the Goa market with DLF Avenue, Goa – a 0.3 million square feet premium offering at one of the most prime localities of the city.





**LACK OF SUPERIOR QUALITY MALL SUPPLY**

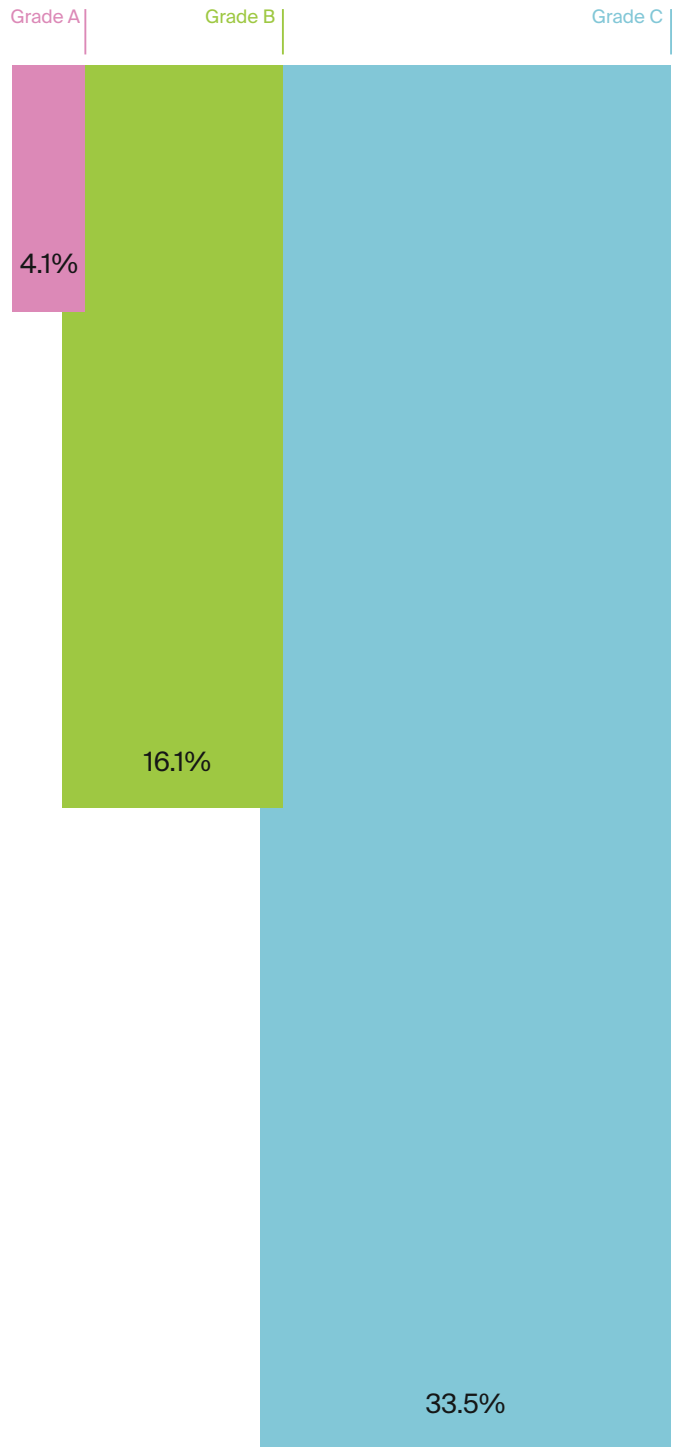
Based on the population, public transport infrastructure such as airport connectivity (both domestic and international), operational retail base and the interest amongst retailers and investors, developer interest in the top 8 Indian cities for development of shopping malls has been high in the past 3 decades. Of the total number of shopping malls in India, nearly 40% of the stock is concentrated in these markets. The shopping mall stock in these cities is a mix of all grades with formats ranging from erstwhile shopping complexes, neighborhood malls, destination malls to outlet malls. Per Knight Frank Research estimates, of the total operational mall stock in 2017, nearly one-third was in the Grade C category. The period between 2003 to 2007 saw a frenetic pace of mall development in India, with 66 malls becoming operational in these 8 cities alone. Over the years, developers realized the importance of adopting more structured and organized management strategies in mall construction and operation leading to a reduced pace of shopping mall development. Prolonged gestation periods, slow rental growth and lack of prime land parcels contributed to the slowdown in the pace of mall development with only a handful of mall developers continuing to build quality mall spaces. It is only in the period after 2017 that Grade A mall construction picked up pace in India and its share rose to 45%. This tectonic shift is due to the fact that many developers who were inexperienced in the construction of mall projects, left the business over time. However, despite this change in approach, the overall stock of Grade A malls in India is still very low as compared to other countries.

**VACANT MALL SPACE IN KEY INDIAN CITIES**

The impact of this disorderly mall construction reflects in vacant mall spaces across the top 8 Indian cities. At a pan India level, Grade A mall vacancy is recorded at 4.1% at the end of H1 2022. Grade B and Grade C vacancy stands at 16.1% and 33.5% respectively. Cities with a high percentage of Grade A mall stock or a lower base of total malls, typically have a low overall vacancy at the city level. Per our findings, the total vacancy across all grades at a pan India level stands at 16.6% at the end of the H1 2022 period. Chennai has the lowest vacancy of 9.9% across the markets under coverage, followed by Kolkata at 11.7% and Mumbai at 14%.

Figure 9

**Grade Wise Mall Vacancy**



Source: Knight Frank Research  
 Note: At the end of H1 2022



Figure 10

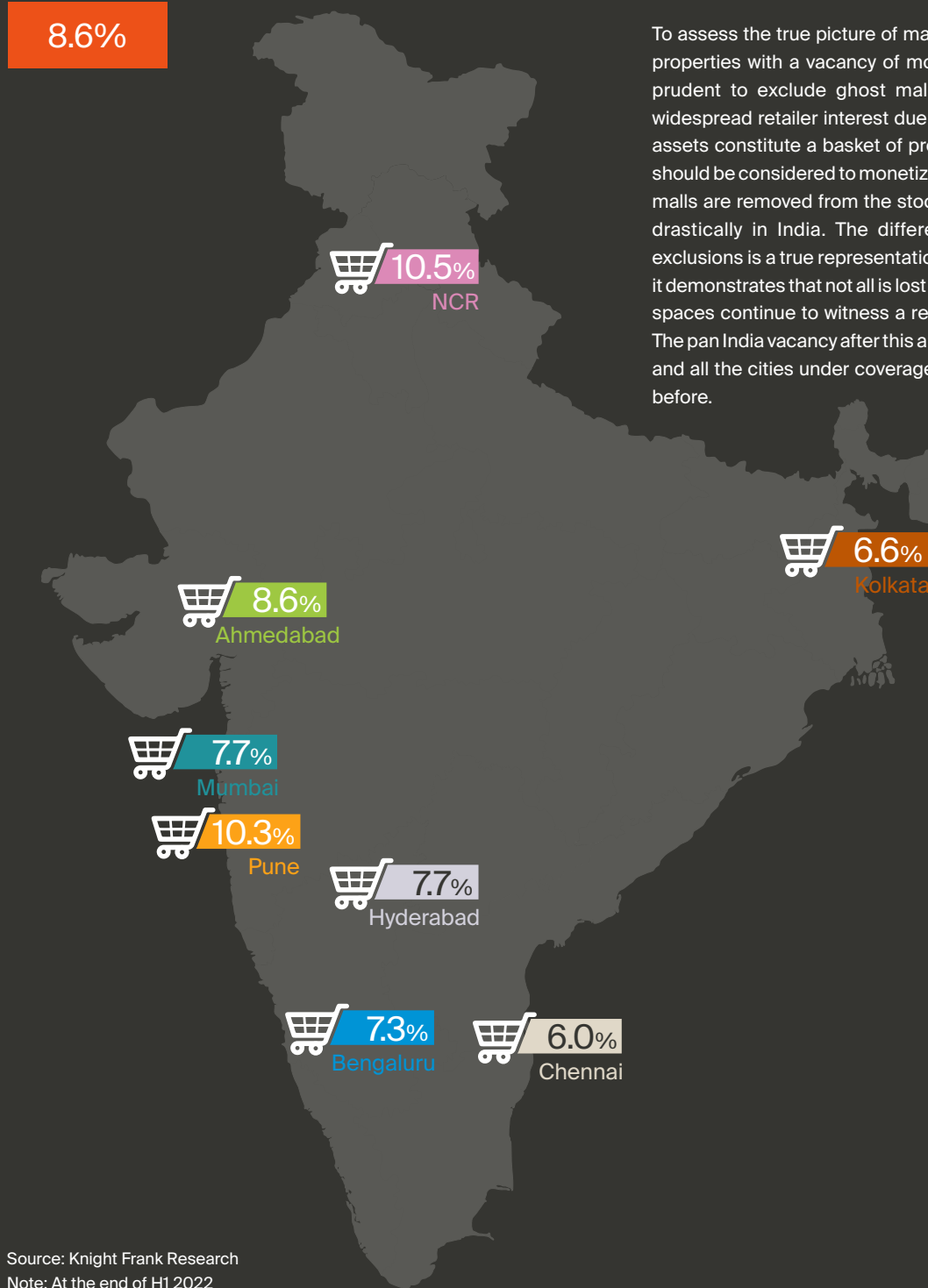
## Mall Vacancy in India



Source: Knight Frank Research  
Note: At the end of H1 2022

Figure 11

## Mall Vacancy in India after Exclusion of Ghost Malls



Based on the findings of our primary survey, we have noted that many malls in India have a high double-digit vacancy while some better performing malls have very limited vacant spaces available. The high vacancy of such mall properties invariably impacts the India vacancy percentage and provides a skewed picture.

To assess the true picture of mall health, we have identified all mall properties with a vacancy of more than 40% as 'ghost malls'. It is prudent to exclude ghost malls as this stock does not attract widespread retailer interest due to various constraints. These retail assets constitute a basket of properties where alternate strategies should be considered to monetize them. Per our analysis, once these malls are removed from the stock, the overall mall health improves drastically in India. The differential vacancy arrived after such exclusions is a true representation of shopping mall performance as it demonstrates that not all is lost after the pandemic and quality retail spaces continue to witness a recovery in their operational metrics. The pan India vacancy after this analysis reduces from 16.6% to 8.6%, and all the cities under coverage represent a healthier picture than before.

Source: Knight Frank Research  
 Note: At the end of H1 2022

## PRE-COVID AND POST-COVID SCENARIO OF INDIAN SHOPPING MALLS

The environment with respect to shopping malls in India post the pandemic outbreak has been evolving with leading developers repositioning destination malls as safe havens for shopping and entertainment, with some of them also adding additional retail spaces in neighbourhood malls and renovating to attract footfalls. Changes in the retailer category mix, mall supply and vacancy have

been far and few in the past two and a half years. Grade A malls continue to perform well, beating pre-pandemic consumption, footfalls, and occupancy levels. Due to higher vacancy in some Grade B and C malls, developers are re-evaluating leasing options for alternate uses as identified later in the report.

Table 1

### Pre Covid and Post Covid Comparison of Key Parameters in Indian Shopping Malls

Parameter*	Pre-Covid**	Post-Covid
Number of Malls	255	271
Gross Leasable Area of Malls	7.2 mn sq m (77.4 mn sq ft)	8.6 mn sq m (92.9 mn sq ft)
Vacancy %	15.5%	16.6%

Source: Knight Frank Research

\*For top 8 markets only

\*\*Dec 2019

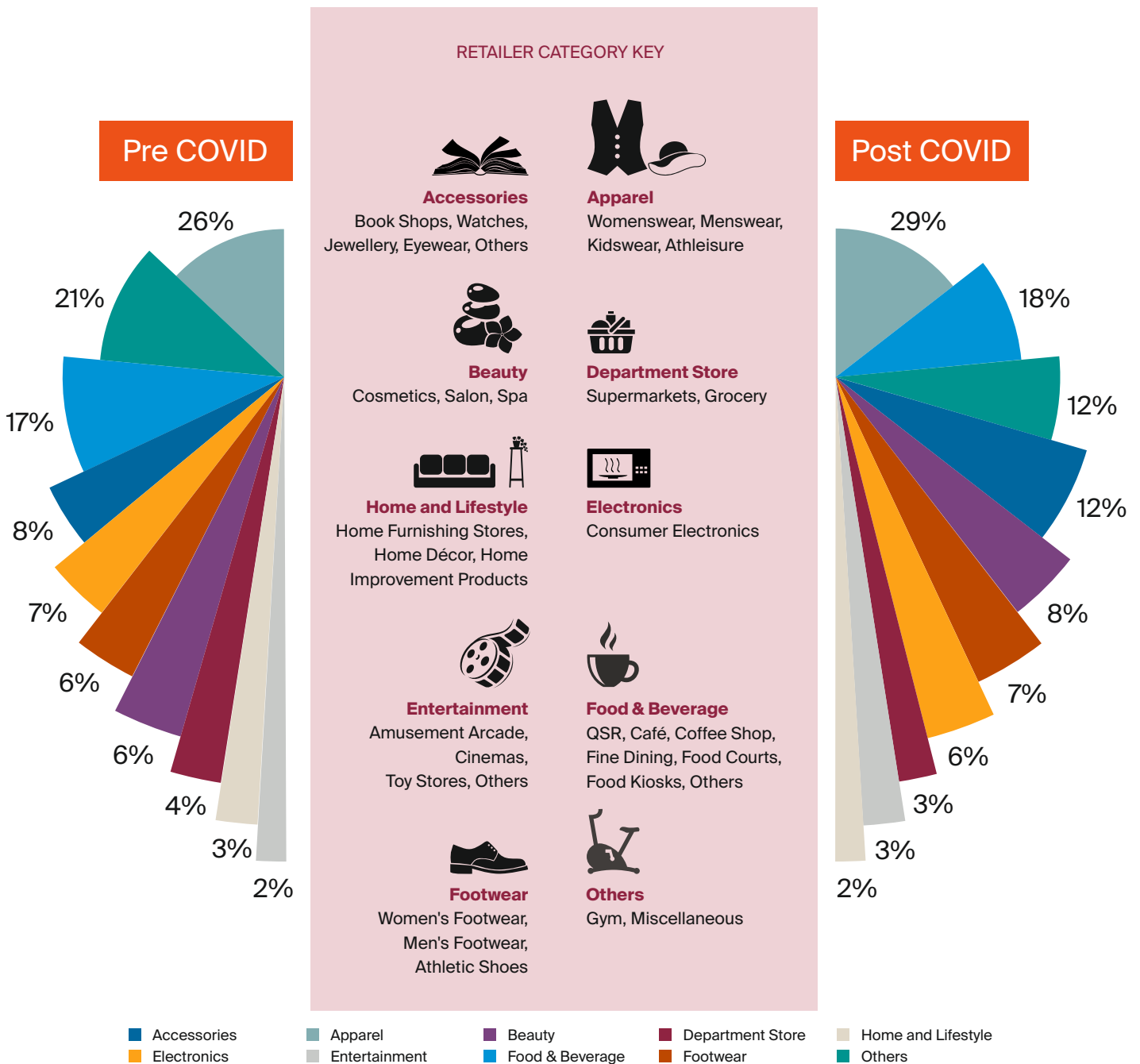


There haven't been any drastic changes in the retailer category split between the two periods despite the turbulence caused by the pandemic. Apparel constitutes the top retailer category to have

footprint in shopping malls during both the pre-Covid and post-Covid periods with a 26% and 29% share in the overall pie, respectively.

Figure 12

### Retailer Category Split Comparison



Source: Knight Frank Research

# INFRASTRUCTURE AND SHOPPING MALLS

## NON-AVAILABILITY OF AFFORDABLE LAND FOR RETAIL DEVELOPMENTS

Land is not a scarce commodity in India. However, availability of suitable land parcels for real estate development by private players varies depending on the purpose and asset class. Adding the location angle, land availability in locations near centers of commercial and business dominance remains limited. Consequently, land prices have shot through the roof in the past decade. High land prices, construction costs and escalating taxes have made it costly for private players to construct real estate products. This has pushed many real estate projects to the city peripheries, leading to development of satellite towns and far-off peripherals.

Organized retail formats such as shopping malls have been faced with two major obstacles – non availability of land for retail sector and a lack of policy push for the retail sector. These factors in turn curtail the development of shopping malls and transport infrastructure around these developments. The Government of India's Urban and Regional Development Plan Formulation and Implementation (URDPFI) Guidelines 2015 identify retail as commercial use. The guidelines also provide norms for the hierarchy of commercial centres, based on population and a detailed list of activities that can be part of the retail development. The state governments are expected to incorporate these guidelines in the urban planning process while preparing a regional or master plan. For example, Delhi's city development plan has identified retail specifically under a commercial zone, as a result of which the city is able to create specific centers in South and West Delhi for retail. Since there is no clear demarcation between commercial and retail use in development plans of many states, the respective city master plans have no space

earmarked for retail development and it is often included in commercial use. As a result, retail development takes place in a haphazard manner, with commercial and retail often competing for the same space. Office projects get priority because of the returns they give to developers and investors.

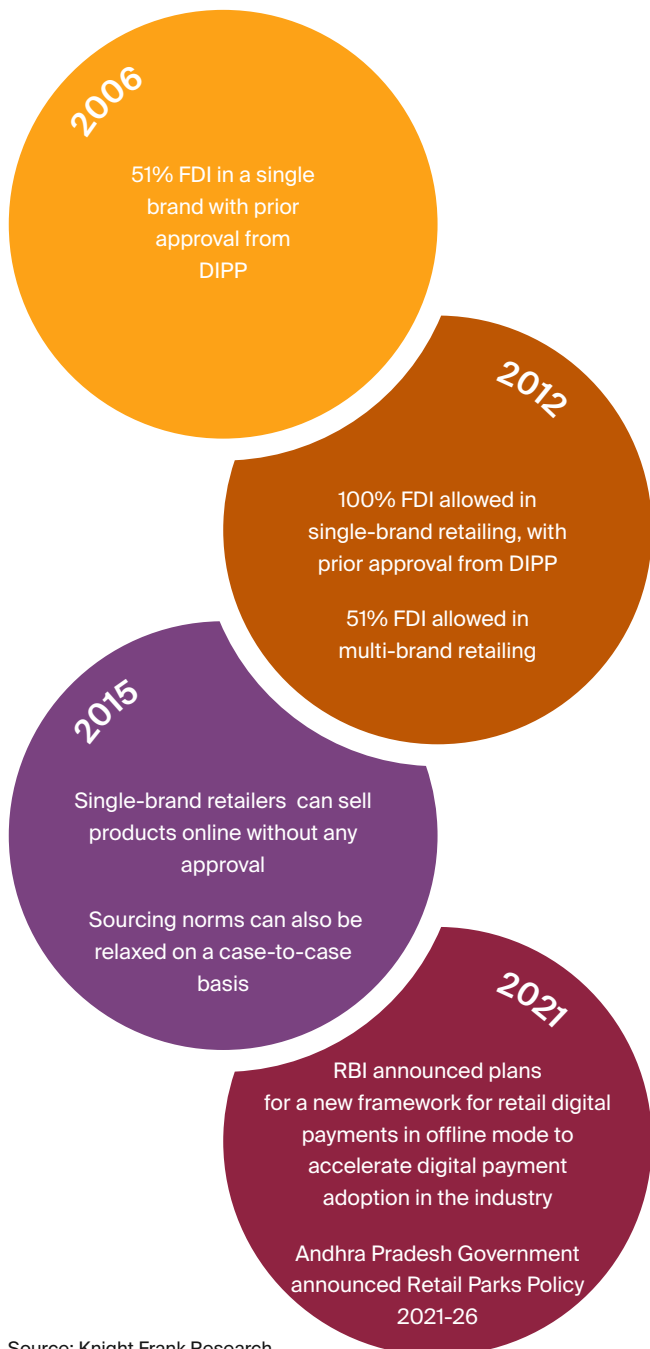


**POLICY INITIATIVES FOR THE RETAIL SECTOR**

The evolution of India's Foreign Direct Investment (FDI) policy is a step in the right direction for the retail sector.

Figure 13

**Key Policy Initiatives Timeline**



Source: Knight Frank Research

Two Indian states where retail trade policies have dedicated focus on the development of retail entertainment zones and retail parks are Maharashtra and Andhra Pradesh respectively. The development of retail entertainment zones (REZs) was conceptualized as per the Government of Maharashtra's Retail Trade Policy, 2016. The concept of an REZ was to create a separate zone for retail and recreation with direct access to mass public transport systems. This was to be included in the master plan of the various cities in Maharashtra. These zones were conceptualized with large land parcels for mall development. Since the use was already identified as retail/entertainment, it was anticipated that the land prices would eventually rationalise for this particular use. Physical infrastructure such as roads, public transport, and power, which comprise the backbone of a successful retail centre, was included within the master plan. A relaxation in the development control norms would have been favourable to mall developers.

The Andhra Pradesh Retail Parks Policy 2021-26 envisions offering handholding to the retail park developers with a minimum investment of INR 100 crores. A key highlight of the Andhra Pradesh state retail policy was a single-desk portal for retail park developers to obtain all clearances in a time bound manner.

However, there is a lot more that needs to be done on the ground to ensure adherence to these policies to create a suitable ecosystem that facilitates development of large international standard shopping malls.

**STEPS TO PROMOTE DEVELOPMENT OF LARGE FORMAT RETAIL ZONES AND SHOPPING MALLS**

- a) **Earmarked space for retail developments** – Earmarking spaces in master plans will help raise the standard of shopping mall development in the country. The earmarked spaces for retail/entertainment developments will rationalise the land prices for shopping mall development. This will also help in the planning of infrastructure on road, public transportation, power, and other fronts in advance, thereby making shopping mall development a lucrative construction proposition for developers.
- b) **Streamline Development Control Regulations (DCR)** – There is a major disconnect between sanctioned development plans and the requirements of a retail development. While the sanctioned development plans are largely as per the norms governing commercial properties, the business use, the prerequisites of a retail development such as a shopping mall are very different. For shopping mall developments to be viable and of superior quality, modifications in DCR such as higher ground coverage, recreation ground areas, floor-to-floor heights and parking norms are required to be included in several state plans.

- c) **Building Height** – There is a height restriction for buildings which house a multiplex or an auditorium. Retail developments generally do not work at higher levels, and hence to use the entire eligible FSI of the land, alternate commercial use like hotels, service apartments and offices are required to be developed on the upper floors. The restriction on building heights, after addressing other applicable norms like fire safety, etc., should be relaxed, looking into the capabilities of the Planning Authority. Accordingly, existing rules should be modified to that extent.

### INFRASTRUCTURE AS FACILITATOR

A shopping mall should have access to infrastructure that maximizes footfalls. Access to the mall, quality of road infrastructure, parking and availability of different modes of public transport – all play a significant role to determine its fate. Physical infrastructure and transport infrastructure go a long way in determining the attractiveness of a mall for the mass population. If reaching a shopping mall is fraught with several hurdles such as long waiting time for parking, inadequate parking spaces, changing buses or relying on other means of transportation for last mile connectivity after exiting a metro station, it can be tedious for shoppers. Even before the F&B options, tenant mix, central atrium, and other entertainment concepts of a mall can gather eyeballs, it is the infrastructure angle that plays out in the psyche of mall goers when they decide which mall to visit.

Unlike their international counterparts, shopping malls in India are often plagued with a lack of public transport connectivity to the last mile in many cities. As a result, even if a mall structure is well constructed and can attract a good tenant mix, consumption in the mall is adversely impacted due to limited access. Not only lack of connectivity, it is commonplace in many cities to not upgrade the existing infrastructure in terms of parking facilities or connectivity with foot bridges or road widening. For well performing malls with single digit vacancy, it is imperative to pay attention to these aspects to bring visitors to the footsteps of mall properties.

The Dubai Mall, second largest mall in the world by land area, opened in 2008 and by 2012, the Metro Link and an 820-metre-long elevated air-conditioned footbridge had completed the last mile connectivity to the mall. From 37 million visitors per annum in 2009, the mall attracted 80 million visitors<sup>1</sup> for four consecutive years between 2016 and 2019. With mindful planning, Emaar Malls constructed five more retail link bridges to strengthen road connectivity to the Dubai Mall with the support of the Roads and Transport Authority (RTA). Similarly, West Edmonton Mall, the second most visited mall in Canada continuously invested in increasing parking facilities and held the world record for more than 20,000 parking spaces in 2008. More parkades and parking stalls are also being planned. Moreover, the West Edmonton Mall Transit Centre is a major transit centre of the Edmonton Transit Service that provides accessibility to the mall and

is being constantly upgraded to enhance capacity by adding new sidewalks etc. for commuters. The Mall of America in Bloomington, Minnesota lies strategically on an Interstate Highway and attracts 80% of its visitors from neighbouring states such as Wisconsin, Iowa, Nebraska, the Dakotas, Illinois, Ohio and Canada, along with Minnesota. Additionally, it is well connected to the Metro transit network with multiple stops and the local bus service, providing accessibility to the mall. This public transport infrastructure was upgraded with USD 25 mn investment in 2019.

Indian malls are a far cry from the above examples. In developed markets, shopping malls are conceptualized as megastructures catering to not just shopping but entertainment and recreation. Many of these properties have a very high percentage of entertainment and recreation area planned apart from the retail area with multiple options for all age groups. Planning and execution for upgrading the infrastructure near the mall site continues while the mall is operational so that it does not get overburdened with an increase in annual visitors. Both, mall operators and local authorities, work on such upgrades in a cohesive way. As a result, most of these mall properties also develop into tourist destinations and attract substantial tourist traffic into their premises. These mall properties often emerge as multi-purpose complexes and a symbol for commercial, cultural, and social use which enhances their visibility manifold.

Lack of infrastructure near retail land has been a major impediment to creation of investment grade mall assets in India. Investments in better mall planning and continuous infrastructure upgrades should be prioritised beforehand to manage costs during the lifecycle of the project. In India, transportation hubs such as metro stations are being conceptualized and built with a focus on property development in mind. Metro stations cater to daily passengers and neighbouring residential and commercial catchments. The Metro operator's focus on property development initiatives, as seen in cases of Zero Mile Freedom Park Station in Nagpur and HUDA City Centre in Gurugram, ensuring nearby land parcel use is changed to commercial, creates appropriate conditions for organized retail footprint to flourish. The retail categories include quick serve restaurants (QSR), pharmaceuticals, and convenience stores. Apparel, supermarkets and electronics are also some other categories that have come up near Metro stations in India and a transit-oriented approach helps in the development of these alternate class of mall properties or "transit shopping malls" which can be a viable shopping mall concept in the years to come. Seawoods Grand Central Mall in Navi Mumbai is India's largest Transit Oriented Development (TOD) which is directly connected to Seawoods railway station and is 5 minutes away from Belapur CBD. This mall property is directly accessible from the express highway and close to the proposed Navi Mumbai Metro corridor. We need more such infrastructure and connectivity enabled developments in our country to chart the next chapter of shopping mall development.

<sup>1</sup>Pre-Covid 2019 estimates for 2016 to 2019



# BREATHING LIFE INTO GHOST MALLS

## GHOST MALL STOCK IN INDIA

Due to multiple factors such as lack of due diligence, mall shortcomings such as size and ownership patterns, design issues, faulty layout with dark alleys, lack of customer walk flow management, low occupancy and lack of anchor tenants, some of the shopping mall assets developed in the golden era of mall development in India were in for a reality check by the dusk of 2008, when India was hit by the global recession. Developers who had jumped into the mall development business without any understanding of the demographics and demand were biting their nails. In the past few years, a lot of ghost malls have sprung up in the organised retail sector in India. Per Knight Frank's research survey, as many as 21% or 57 malls across the top eight cities in India are currently in different

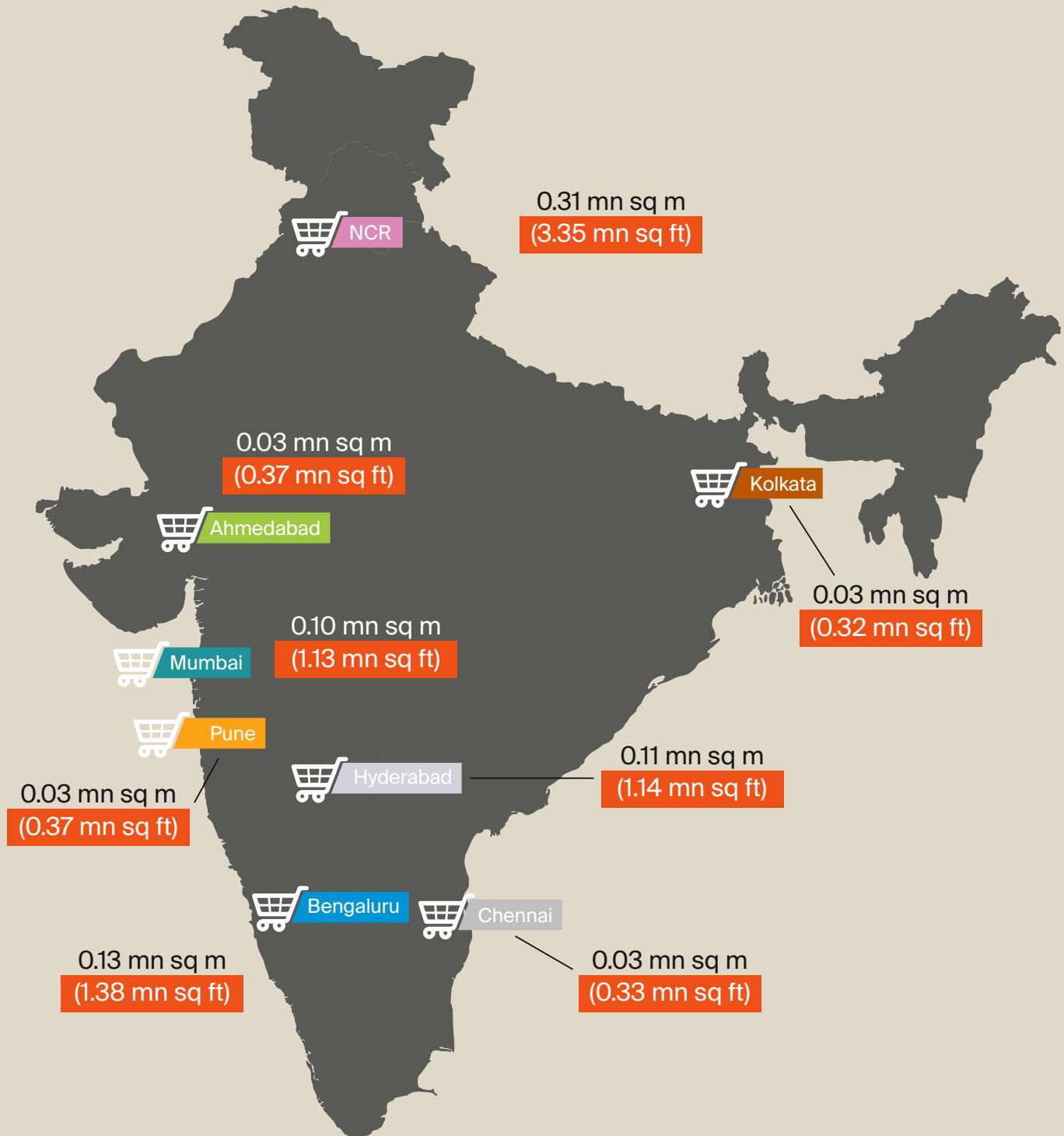
stages of dilapidation. These 57 malls comprise nearly 0.8 mn sq m (8.4 mn sq ft) in gross leasable space and all attempts to breathe life into these assets and attract a good retailer mix and footfalls have been unsuccessful. As a result, the revenue generation potential of such mall assets is far below the expected threshold. While in some cases, termination notices have been served to shut down large format stores which comprised an entire mall, in other cases, discontinuation of operations, demolition of shops inside the mall premises and auctioning of the mall property due to non-payment of dues to the local mall authority are also underway.





Figure 14

### Ghost Mall Stock in 8 Key Cities in India



Source: Knight Frank Research

## REPURPOSING GHOST MALLS

It is imperative that such malls, though unusable for the purpose for which they were constructed are reinstated, as an enormous amount of capital is trapped in such assets. Renovation and repurposing them into alternate uses can be one option as such assets are usually built on coveted land parcels in locations to vie for and can be monetised if strategised appropriately. This can be done in the following ways:

- a) Lease out empty spaces for long-term commercial use to local businesses which cannot afford high rents in prime office business parks or popular business districts. Such businesses typically have small floor plate requirements- such as co-working operators, real estate agencies, call centres, fitness center chains etc., and can easily set shop in existing physical store areas demarcated, if vacant. In the past few years, many co-working operators have established footprint in underperforming malls as they offer cheap rentals, large spaces and easier access to recreational facilities. Warehousing can also be considered in such malls as large floor plates with vacant spaces are available.
- b) Short-term leasing for temporary occupancy such as community events, birthday parties, cultural shows during festival periods and corporate events.
- c) Transformation into community spaces and rebranding as entertainment and play hubs with options such as multiplex theatres, dedicated toddler and soft play areas, bungee soccer, bowling alleys, indoor cricket grounds, video game arcades, VR gaming, mini golf, cocktail lounges and a diverse F&B retailer mix. Rebranding and change in product mix can go a long way to bring in more footfalls for the same property which struggled for years due to low performance. Focus on sports, movies and food is one way to lure the otherwise reticent millennials to shopping malls whose shopping patterns have shifted largely to online mode due to the pandemic.
- d) Lastly, demolition of the existing structure and sale of land to minimise the losses or construction of a conventional residential complex or commercial space structure which will have a better probability of occupancy once completed.

With the arrival of competition from the opening of larger and swankier malls in the vicinity of nearby micro-markets, some of the old mall constructions which had been doing well may start languishing due to low footfalls. Repurposing of such ghost malls is far more arduous a task and requires creativity to come up with conditions and incentives to align investment and cohesive development. Strong public-private collaborations with community development goals can salvage the commercial value of such real

estate assets. New kind of tenant solutions for such properties, which are technically still a part of mall inventory but with shocking vacancy levels can include:

- Thrift stores, food and clothing banks
- Exhibition, presentation and event spaces
- Daycare, elder care and pet care
- Elementary and secondary schools
- Workforce training centres
- Human development centres for government services

With community, learning, health and art as the core values, such development partnerships can become good examples of repurposed retail. Despite the historic shift to online shopping, this is a widely available opportunity to turn a big problem into a big asset. Repositioning such malls for aforementioned alternate uses represents a high impact opportunity through support from local communities.

### CASE STUDY - ATRIA MALL WORLI, MUMBAI

#### PROPERTY DESCRIPTION

Geography/Location/Name	India - Mumbai
Asset Class (old -> new)	Retail -> Retail
Built-up Area mn sq m (mn sq ft)	0.02 (0.26)
Year of Completion	2006
Rationale for Repurposing	Poor business economics as a retail asset on account of location and mall layout.

#### Asset Analysis

As a retail mall, the property became operational with high occupancy consisting of a good tenant mix. Despite attracting notable international brands across apparel, watches and automobile categories, the mall vacancy started climbing up. The property soon started dealing with poor financial economics.

Located on an arterial road, the mall was initially positioned as a high-end retail property. The mall owners made changes to the mall layout and format, converting it into a full-scale retail destination. Since the catchment is strong, the opening of a cinema and entry of a French sporting goods retailer, has helped the mall repurpose itself as a retail destination once again. It has attracted food & beverage and a mix of accessories and apparel retailers, amongst others. As regards its success, most of the property has already been leased and it enjoys good footfalls now.

## EMERGING GLOBAL

## TRENDS POST

## COVID-19

## OVERVIEW

Globally, physical retail stores are facing challenges from the increasing relevance of e-commerce and extensive usage of technology. The COVID-19 pandemic accentuated this competition as recurring Covid waves and prolonged lockdowns restricted physical retail shopping. As lockdowns became the new normal, consumers and businesses went digital for purchasing goods and services online, thus challenging the physical stores. As per United Nations Conference on Trade and Development (UNCTAD), the share of e-commerce in global retail trade increased from 14% in 2019 to 17% in 2020<sup>2</sup>. However, despite the rapid surge in e-commerce business, the physical retail stores have continued to remain relevant.

Physical retail stores act as a key touchpoint of direct interaction with customers. And key drivers such as the ability to touch a product, instant gratification and the physical shopping experience etc. continue to keep the physical stores relevant. Malls benefit the physical stores as they provide visibility to the brands and enhance the chances of increase in sales. With the right mix of strategy and innovation, physical stores and shopping malls could continue to be a key component of retail success, however, this is not devoid of challenges. 2020 witnessed a record number of store closures and the landscape is now more competitive than ever. Besides, shopping malls are no longer just transactional centres, and hence, to sustainably optimize space utilization, it is necessary that they upgrade themselves as experience and service centres creating a more coordinated consumption ecosystem.

To continue to remain relevant in the age of e-commerce and digitalization, physical retail assets have been focusing on differentiating themselves from the competition by adapting new strategies of broadening their services and refurbishing the existing retail realty. Although, most of these trends were emerging much before the outbreak of COVID-19, the pandemic accelerated the pace of such changes.

<sup>2</sup>UNCTAD, "How COVID-19 triggered the digital and e-commerce turning point", March 2021



**Yogeshwar Sharma**  
CEO & Executive Director, Select Infrastructure Pvt. Ltd

“

I am very positive about the growth of shopping centres and expansion of retail brands in the coming years. The much talked about 'India consumption theory' is now becoming a reality. Many national and international brands have chalked out and started execution of their expansion plans. With Covid behind us, there is a surge in international brand representatives to explore the India Market for their respective brand expansions. Another positive sign is expansion of brands in tier II and tier III cities in addition to the metro cities. With smart phone penetration, most of the brands are able to adopt omni channel strategy thereby expanding their reach to consumers in smaller towns. We are very happy to witness this retail revolution.

”

## REPURPOSING OF RETAIL ASSETS IN HIGHSTREETS IN UK

In recent years, with more consumers preferring the convenience of online shopping, the landscape of high street retail is undergoing a transformation. In UK, even before the pandemic, 25-40% of the retail space was no longer viable or needed<sup>3</sup>. The vacancy rates were further accelerated by the pandemic. According to data from the British Consortium, one in seven shops in England and Wales were empty as on March 2021<sup>4</sup>. The overall vacancy rates of shops increased to 14.1% in the first three months of 2021, up from 13.7% in the previous quarter. The collapse of retail giants such as Gap, Arcadia and Debenhams in the last few years has left huge empty spaces in commercial centers and high streets across UK. Some of these spaces now are proposed to be developed as mixed use venues which includes retail, leisure, business, and entertainment.

The 7,432 sq mt (80,000 sq ft) Debenhams store in Wandsworth, UK which was shut down in 2020 has been taken over by Gravity Active Entertainment, a trampoline company. In a joint venture with landlord Landsec and Invesco, the space is converted into a high-tech entertainment venue. This would be London's first active entertainment venue providing unique indoor activities under one roof such as e-karting, bowling, street golf and AR digital darts.

## DARK STORES TAKING OVER VACANT RETAIL ASSETS IN US MALLS

The US has the highest retail space per capita globally at 253 sq m (24 sq ft) per person. However, the rising closure of retail stores in the US, especially in Grade B and C malls have necessitated repurposing of vacant malls. Some of these underperforming retail assets have become an ideal location to set up dark stores by well-established e-commerce retailers. Dark stores are traditional retail stores that are converted into miniature warehouses in urban centres which cater as last mile delivery hubs. Such repurposing of vacant stores provides an opportunity for the shopping mall owners to capitalise on the vacancies. Mall operators have the advantage of central locations, readily available organised spaces, and on-site retailers, which are cost efficient for the e-commerce retailers to set up their fulfilment centres or micro warehousing facilities. E-commerce giants in the US such as Amazon have begun leasing mall spaces as distribution hubs due to their easy residential access.

<sup>3</sup>Centre for Policy Studies, UK, "Reshaping Spaces: Building Back Better", 2021

<sup>4</sup>British Retail Consortium, "One in seven shops remain shuttered", July 2021

<sup>5</sup>Yahoo Finance, "Amazon Is Buying Dead Malls – and the Reason Why is Fascinating", April 7, 2021

<sup>6</sup>Bloomberg, "CBL Properties Celebrate Opening of Live! Casino Pittsburgh at Westmoreland Mall Outside of Pittsburgh, Pennsylvania" November, 2020

<sup>7</sup>BISNOW, "Simon Mall In South Florida Is Adding A Hotel", April 2021

In 2021, Amazon converted a mall in Louisiana into a distribution centre, and a mall in Tennessee into a 20,438 sq m (220,000 sq ft) distribution centre. In the same year, Amazon got an approval to convert Greendale Mall in Massachusetts into a 11,214 sq m (121,000 sq ft) distribution centre.

Source: Source: Yahoo Finance<sup>5</sup>

## NON-RETAIL TENANTS FILLING UP VACANT ANCHORS

Non-retail tenants in the US such as hotels, bowling alleys, casinos and health care centres are filling up anchor spaces emptied by traditional retailers such as departmental stores in malls. Such shift in the tenant mix raises the scope of increasing footfall into the mall as it provides a cross shopping experience inclusive of dining and entertainment. In 2020, for instance, CBL Properties opened 'Live! Casino Pittsburgh' at its Westmoreland Mall in Greensburg, Pennsylvania. 'Live! Casino Pittsburgh' is a casino/ gaming and entertainment centre set up on a space which was earlier leased by a retail anchor<sup>6</sup>. Over the next few months, the mall witnessed an increase in leasing activity and foot traffic, as per a CBL spokesperson. In 2021, the Simon Property group added an eight storey Marriott branded hotel at Sawgrass Mills Mall in Sunrise, Florida. Sawgrass Mills Mall is the largest outlet and value retail shopping destination in the US, hosting over 350 stores and is one of the most travelled destinations in Florida<sup>7</sup>.

## CONCEPT STORES SET UP IN MALLS IN DUBAI TO ATTRACT TECH SAVVY SHOPPERS

Dubai is an established shopping capital in the Middle East. The interplay between Dubai's retail, real estate and tourism plays a prominent role in the economic development of the United Arab Emirates (UAE). To maintain the prominence of shopping centres in retail realty, shopping malls are providing novel experiences to attract consumers. One such trend is reimagining of concept stores. Concept stores offer services and products beyond the flagship space of the brand consisting of a mix of hospitality and retail under one roof. They are primarily established to cater to the tech savvy millennial shoppers and are designed to provide a hyper-personalized shopping experience to the customers using AI and VR technology.

In 2021, Majid Al Futtaim (MAF) Lifestyle launched 'THAT concept store' in Mall of the Emirates. The 4,500 sq mt concept store is spread over three floors and accommodates key millennial brands such as Off-white, File and Open Ceremony along with Arab brands such as Roni Helou, Qasimi, Kaftish etc. The store provides an enriching shopping experience of digital mirrors in the clothing sections, a fitness center, a nail spa and a hair salon, along with laundry and tailoring services.

Similarly in 2022, MAF also added a digital concept store 'The store of the future' in partnership with tech giant Cisco at Mall of the Emirates. The store provides a platform for clothing, beauty, and homeware brands on rotation. The store is designed to offer a hyper-personalized shopping experience equipped with cameras, sensors, and Artificial Intelligence technology. It provides a tech driven shopping experience to the consumers and at the same time the retailers get the analytical breakdown of the customers' response to the products.

Source: Vogue Business<sup>8</sup>

## DEPLOYMENT OF ROBOTS AT MALLS IN CHINA

As customer shopping preferences are fast evolving, technology is playing a prominent role in digitally upgrading shopping malls to provide novel shopping experiences. The COVID-19 pandemic further accentuated the need for technological dependency. For instance, as pandemic induced social distancing norms were applied, shopping malls in China introduced AiM robots, which are self-serviced robots driven by artificial intelligence (AI) to help customers. These robots aim to assist the retailers and increase brand awareness which in turn drives sales with minimal human contact. The AiM robots are capacitated to autonomously identify and approach customers in complex and high traffic environments such as shopping malls using biometric technology. Such robots issue a variety of coupons for dining, movies, sports, and entertainment to attract customers. In 2020, Cheetah Mobiles, a China based technology firm in AI, deployed more than 700 robots in 887 shopping malls across 32 cities in China. The deployment of these robots has successfully driven sales and footfalls in some of the malls in China.

<sup>8</sup>VOGUE Business, "How is UAE rethinking the concept store", April, 2022

<sup>9</sup>Cheetah mobile, "Cheetah Mobile deploys 7000 Shopping Mall Robots Boosting Offline Retail", May 2021

<sup>10</sup>TimeOut, "Meme Museum by 9gag", July 2021

<sup>11</sup>Blooloop, "China's first e-sports themed shopping mall opens in Shanghai", 2021

In the Yifang Shopping Center in Shenzhen, the AiM Robots have increased the daily average orders 2.5 times for each food and beverage shop. Restaurant coupons issued by the AiM robots are mostly redeemed within half an hour; other snack and drink coupons are also popular among shoppers.

Within the first week post lockdown in 2020, daily foot traffic in Wuhan's shopping malls increased by 418% compared to the second half of March, jumping from 1,839 to 9,537 customers per day. The AiM robots identified the top 20 activities and products Wuhan consumers wanted after the lockdown based on the inquiries they received; tasty food, bubble tea and clothes occupied the top three positions. Last but not the least, was a haircut.

Source: Cheetah Mobiles<sup>9</sup>

## CHINA MALLS SCALE UP RETAIL EXPERIENCE

To remain more relevant to the evolving needs of the consumers and continue as aspirational destinations for retail, leisure and entertainment, retail developers in China are inching up to provide an extraordinary experience. Some of the upscale malls in China such as Wanda Mall and Mall of China which have indoor amusement and theme parks are already leisure destinations. Such malls with themes and experience centres enhance shopping experience while creating positive brand synergies. K11 Art Mall in Hongkong, for instance, famous for museum retail, launched a "Meme Museum" which is more appealing to the millennial population. In another instance, China's first eSports themed shopping complex ESP eSports Experience Centre was opened in Putuo District, Shanghai in 2021. Covering over 36,000 sq metres (3,344 sq ft) the experience centre hosts a professional e-sports arena such as the Honor of Kings Competition as well as virtual reality gaming. In a joint venture, Swire Properties and Lujiazui opened a wellness themed shopping centre Taikoo Li Qiantan in Shanghai, China. With a total floor area of 120,000 sq m, the shopping centre consists of a wide expanse of green space and features natural design concepts inspired by stone and wood. It offers a mix of mid-luxury and contemporary fashion labels, F&B concepts, and lifestyle brands.



# DOMINANT FORMATS IN INDIA

## IN A POST COVID WORLD

### OVERVIEW

India's retail industry is one of the largest in the world comprising both organised and unorganised retailing. Traditionally, the retail industry in India was dominated by physical stores. In the last few years, however, e-commerce has emerged as its competitor. Despite the sharp rise in the share of e-commerce in retail business, which was further accentuated by the pandemic, the presence of physical stores continues to remain relevant, as they account for nearly 95% of India's retail business. Factors such as rapid urbanisation, digitization, increasing propensity to consume, particularly among the rising middle class, has led to a metamorphosis of retail realty in India with a significant transformation in its growth and investment pattern. Some of the dominant existing retail formats in India include convenience stores, speciality stores, supermarkets, hyper markets, discount stores and shopping malls. The retail formats are affected by various factors such as demography, location, size, price, and services. Each format is driven by a key factor and identifying that provides the retailer a suitable competitive advantage. Over the years, each of these formats have been reinventing itself to cater to the evolving needs of the consumers. The pandemic has given a push to the expansion of an already existing format along with the opportunity to establish new retail formats in India.

### ESTABLISHED SHOPPING MALL FORMATS IN INDIA

#### Neighbourhood Malls

Generally sized between 40,000 to 100,000 sq m (430,560 to 1,076,400 sq ft), neighbourhood malls are in the proximity of residential clusters emphasising ease of access to the consumers. While big format or destination malls offer more of a mix of entertainment and leisure, the neighbourhood malls dominantly position themselves as service centres. These formats reflect the economic, demographic, and cultural aspects of the location they are intended for. The success of neighbourhood malls depends on the right mix of brands which are more focused on the daily needs of the consumers such as grocery, fashion, accessories, and entertainment. Two key elements of a neighbourhood mall are space and location. The big tenants in neighbourhood malls are typically hypermarkets or a cinema hall depending upon the need of the locality. Due to its ease of access to consumers, neighbourhood malls have gained more relevance post pandemic. Some of the existing neighbourhood malls in India are Nexus Neighbourhood Mall in Bengaluru and City Centre Mall in Hyderabad. Citing its relevance, one of India's leading real estate developer added three

neighbourhood shopping centres in early 2022 to its upcoming retail portfolio. These under construction developments are attached to the developers' residential complexes which will further give the retail brands an opportunity to showcase themselves.

#### Mixed-use Developments

Mixed-use developments offer consumers an attractive, integrated community to live, work and shop. They also serve to generate additional traffic for the malls while maximizing returns on invested capital. Other commercial real estate opportunities that can add alternative revenue streams are hotels, office buildings and airports. Over the last few years, mixed use developments have been established in India across cities. Mixed use developments have certain benefits as they integrate residential, commercial, and retail. The scope of footfall increase is more as each segment complements the other. Based on land availability, a mixed-use hub could be either a horizontal or a vertical development. Due to restricted mobility during the pandemic, mixed use developments gained more traction and enabled developers to attract investments and foster FDI. In 2021, a leading developer entered a new joint venture with Canada Pension Plan Investment Board (CPPIB) to develop an office-led mixed-use asset in Mumbai's Lower Parel. The proposed asset development will complement Phoenix Palladium Mall, which hosts over 250 luxury stores and has a premium residential tower along with the luxury hotel St. Regis, Mumbai in its vicinity.<sup>12</sup>

Brigade Gateway Enclave is a fully integrated luxury project developed by the Brigade Group in Bengaluru and is one of the early mixed-use developments established in India. The enclave includes World Trade Centre, a commercial building offering office space to many large companies including Amazon. It also hosts the Sheraton Hotel, Columbia Asia Hospital, Brigade School and Galaxy Club, in addition to over 1200 residential apartments. In 2012, the developer launched its flagship retail venture Orion Mall, in the enclave. The mall hosts some major international brands including Zara, Debenhams, Tommy Hilfiger and Jack and Jones. It also houses retail chains such as Star Bazaar and Reliance Digital.

<sup>12</sup>CPP Investments "The Phoenix Mills Ltd. and CPP Investments collaborate to develop mixed-use asset in Lower Parel, Mumbai", November 15, 2021

## EXPERIENTIAL RETAIL FORMATS IN INDIA

### Curated Food and Lifestyle Destinations

Shopping malls are more than transactional spaces and are largely viewed as entertainment and leisure centres. This has, therefore, necessitated the need for retailers and shopping centre developers to create an ecosystem which provides an enriching retailing experience by developing a lifestyle destination. 153 Biere Street in Bengaluru, for example, is architecturally quaint and accommodates a collection of restaurants and boutiques. The ambience of Biere Street includes a set of open restaurants, cobbled pathways, and boutique stores providing an enriching dining and shopping experience to customers. In large formats, The Walk at Worldmark Aerocity in New Delhi is another prime example of an experiential retail centre. The Walk hosts some prominent international retail houses and a fusion of food chains. The format of the establishment, especially the food court, which is its key anchor, is very appealing to consumers as it is easily accessible from all points of the mall, and provides a relaxing ambience with an open space. Similarly, Jio World Drive Mall located in Mumbai, launched a unique dining concept called Nine-Dine, a multi-cuisine food court, as a new age dining experience.

Jio World Drive also accommodates the country's first roof-top open air drive-in cinema operated by PVR. Drive-in cinemas such as the Prarthana Beach Drive-in Theatre in Chennai, Sunset Drive-In Cinema in Ahmedabad have existed in India for a very long time, but they lost their relevance with the entry of multiplexes. The social distancing norm induced by the pandemic, however, has provided an opportunity for a re-entry of the drive-in or open-air cinema theatres in India which are not substitutes to closed theatres or multiplexes, rather, they are an additional format providing a personalised and enhanced movie experience to the viewers. When attached with a retail hub, a drive-in or an open-air theatre provides an enriching and an engaging shopping experience to the consumers.

### Designer Outlet Retail Hubs

Designer outlet retail hubs, usually located at the suburbs or periphery of the main cities, are off-city shopping destinations providing a diverse experience. Such a format is already well-established across the United States, Europe, and some Asian countries. Some of the successful luxury outlet malls include Bicester Village located in Oxfordshire, London, Findeza Village in Berlin, La Vallee Village in France, and McArthurGlen Designer Outlets located across Europe. These retail hubs accommodate luxury retail brands which sell their products at discounted prices, providing an opportunity for the high-end brands to sell their surplus stock as well as gain new customers. When integrated with a spread of food & beverage and entertainment centres,

outlet malls become an attractive shopping and leisure destination. In recent years, the appetite for luxury brands has increased among Indian consumers which was also witnessed in a strong demand for luxury retail goods even during the pandemic. The rise in middle and high income population and an increasing propensity to spend among the brand conscious Gen X and millennials, makes India an attractive destination for establishing a luxury outlet mall. Typically, most luxury brand shoppers prefer flying overseas to prominent shopping destinations such as Dubai, London, Milan etc which have established retail hubs accommodating luxury brands that sell their products at discounted prices. Thus, an establishment of a world class outlet mall hosting a combination of luxury goods along with great offers and discounts when integrated with a spread of food & beverage and entertainment centres would become a significant pull factor for alluring Indian consumers.



# SOLVING THE COVID PUZZLE

## CHANGING CONSUMER MINDSET

The pandemic led shift in consumers' shopping behaviour arrived at a time when omnichannel and e-commerce were becoming popular as the new buzzwords on the Indian retail scene. Whilst lockdowns and mobility restrictions during the three periods of Covid waves, did impact the retailers and mall operators tremendously, the bounce back and need to socialise and enjoy has driven footfalls back to shopping malls. Watching a movie, fine dining, kids' play areas and coffee shops bustling with crowds yet again, are testament to the importance of shopping malls as destinations to visit and a big driver for impulsive shopping. The need to splurge and live life king size are just some of the pandemic influenced mindset shifts in the modern-day consumer and benefit the post pandemic growth of shopping malls in India.

During the initial recovery periods, when the COVID-19 led lockdowns were eased, malls experienced a trend of serious consumers visiting with the intent of focused shopping, increasing the average bill size per consumer. Though normalcy has returned in consumption as COVID-19 restrictions are lifted or eased, mall operators have transitioned to 'phygital' initiatives to reach consumers and enhance their shopping experience. Some of these phygital initiatives have proved to be remarkably successful and are expected to continue going forward.

Figure 15

## Phygital Initiatives Launched by Mall Operators

Malls launched/upgraded their mobile applications allowing the consumer to check out brands, provide customer support, and send vouchers.

Malls helped local consumers book cinema tickets, restaurant dive-ins and home delivery of products.

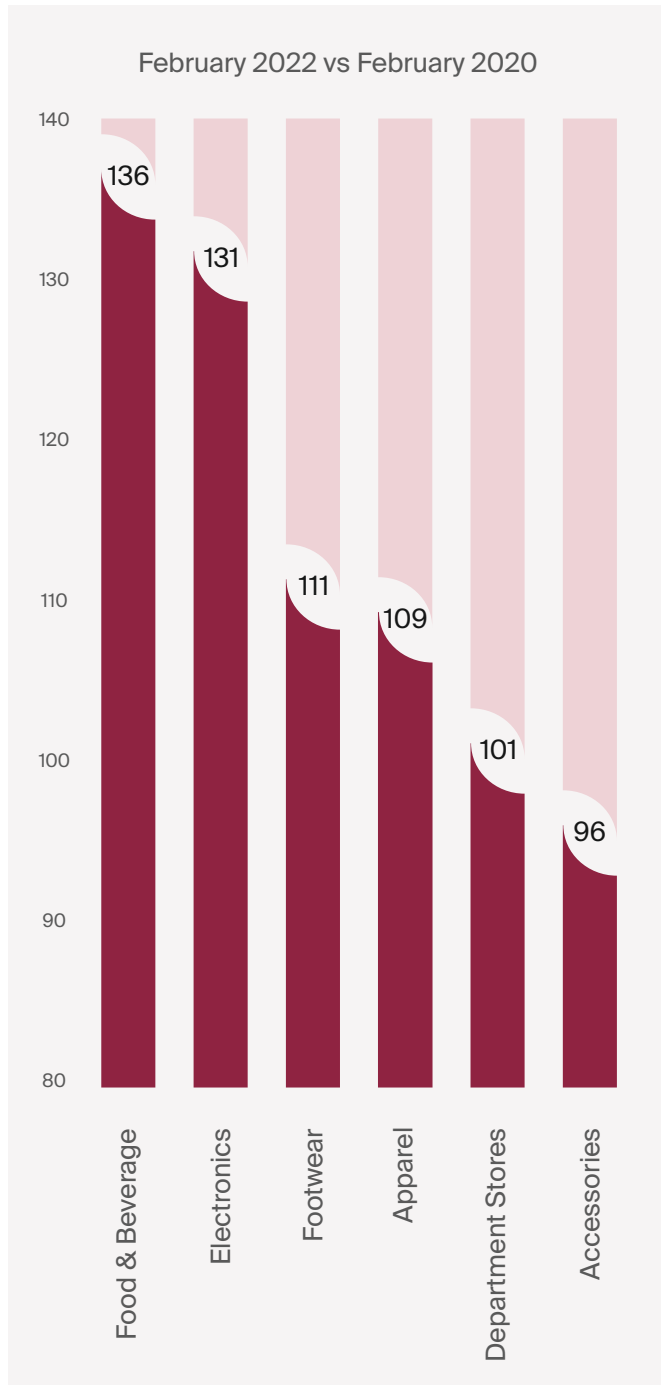
Mall operators analyzed and evaluated inconveniences, and customer journeys inside the malls to provide a better customer experience.





Figure 16

Category Wise Consumption Growth Post the Third Wave of COVID-19



Source: Knight Frank Research, RAI

Notes: Index base value of 100 in February 2020 (Pre-Pandemic)



**Abhishek Bansal**  
Executive Director, Pacific Group

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In a reviving economy, consumer spends are likely to lead to significant growth in the number of shopping centres in India. International fashion and food brands have been rapidly expanding, and as a result, demand for quality retail spaces is at an all-time high. This will help developers to concentrate on building A grade retail spaces. With a combination of rapid urbanisation and digitisation, there is a toss-up between the e-commerce and brick and mortar stores. Eventually both shall co-exist. The industry will have to work on the training and development of manpower to provide international level services to the consumer.

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Compared to February 2020, a month prior to the COVID-19 outbreak in India, the recovery in consumption in February 2022 reflects the consumer sentiments immediately after the Omicron-led third wave of the pandemic. Food and Beverages (F&B) and electronics were the most sought-after categories by consumers noting more than 30% growth from pre-pandemic levels. Footwear and apparel also registered a double-digit growth of nearly 11% and 9% respectively, despite competition from online shopping. Other categories such as department stores and accessories remained near the consumption threshold seen pre-pandemic. This quick uplift in consumption was due to the pent-up demand conversion.

### REVENGE SHOPPING IN MALLS DURING LEAN PERIODS

The phenomenon of revenge shopping denotes the release of a short-term pent-up demand after a period of inadequate spending opportunities. Revenge shopping was also observed in countries like China and the United States where retailers saw a temporary uplift in sales. Likewise, malls in India also witnessed this phenomenon of pent-up demand immediately after the COVID-19 led second wave ended.

During the second half of 2021, consumers who visited shopping malls spent nearly 25-30% more as per average shopping mall bill comparison with the pre-pandemic period. Luxury brands, one of the major beneficiaries of this pent-up demand conversion, performed very well during the last two years of COVID-19 as airport access and travel restrictions led consumers to acquire their favourite luxury merchandise from local shopping malls.

During our interactions with multiple retail industry stakeholders, we infer that this pent-up demand was primarily driven by consumers with intent to use incremental savings, being tired of online shopping during lockdowns. Post the third wave, by the end of FY 2022, consumption in top malls surpassed pre-pandemic levels. This short-term spike in consumption aided shopping malls and retailers to recover from lockdowns to some extent. Malls today are however, more interested in sustaining consumption rather than benefiting from short-term pick-ups.

### CONSUMER SENTIMENTS UPLIFT DURING THE FESTIVE PERIOD

Even after the COVID-19 restrictions were eased, retailers patiently waited for the festive season in the hope of enhanced revenue potential, banking on improving consumer sentiments regarding mall visits during this time. The festive season of 2021 brought the opportunity to make up for lost demand after the second wave as vaccination coverage was extended. Preference of malls as a shopping destination increased considerably after the threat of the second wave faded.

According to our interactions with some listed developers, apparel and electronics made a strong comeback in the festive season of 2021 as consumption levels reached 70-100% of pre-pandemic levels across malls, and accessories secured 90-100% of pre-pandemic level sales. Food and beverage (F&B) players were not able to attract good footfalls due to tighter restrictions and limited seating capacity and were able to cover 50-70% of pre-pandemic sales. Department stores outperformed other categories with 100-150% of pre-pandemic level growth, most of which came from the furniture segment owing to consumer interest in creating work-from-home spaces.

### RETAILER AND MALL OPERATOR COLLABORATION TO EVOLVE

After going through the test of time through three waves of the pandemic, collaboration between the retailers and mall operators has evolved for the better. Over the past two years, the way in which the two parties supported each other has been rewarding for both. While rental models are evolving on a case-by-case basis, operators are now focusing on getting contractual terms back on track as the recovery phase continues.

Figure 17

## Evolution of Rental Models in Indian Shopping Malls

#### Pre-Pandemic

Retailers pay rent as per:

- Minimum Guarantee (MG) OR
  - Revenue Share
- whichever is higher

#### During Lockdowns

- Malls enter brand specific negotiations
- Malls offer Fixed Rent Waiver of 45-50% to tenants
- Tenants not permitted to commence operations by the government are supported with more waivers.

#### Post Third Wave

- Malls remove waivers as retail consumption rises
- Malls increase revenue share for a limited period
- Malls focus on charging contractual rents in long term

Source: Knight Frank Research

**RENTAL MODELS-BEFORE AND AFTER PANDEMIC**

Before the COVID-19 pandemic outbreak, rental arrangements between mall operators and retailers presented a simple yet structured approach. As per the rental model adopted, mall operators charged their retailers a negotiated gross rent based on a minimum guarantee (MG) structure or a pre agreed share in the retailer's revenue, whichever was higher.

**RENTAL MODELS DURING THE PANDEMIC IMPACTED PERIOD WHEN MALLS WERE SHUT DOWN OR LOCAL RESTRICTIONS WERE ENFORCED**

During the lockdowns, mall shutdowns led to no consumption in the malls and made it difficult for retailers to pay the rent. To salvage the situation, mall owners extended rent waivers to retailers up to 45-50% on MG on a case-by-case basis for the period for which malls were not allowed to operate by the government. These rent concessions were differentiated based on the categories in which a retailer operated. As the lockdowns were lifted, rent waivers were scaled back. However, tenants, whose operations were not permitted by government norms, such as multiplexes, dining restaurants and bars and entertainment brands, were extended more waivers through negotiations during periods of such uncertainty. Per our interactions with some mall operators, retailers across three categories - multiplex, salons and spa, and gymnasium, received maximum support during lockdowns whilst for food & beverage, the concessions remained limited as operational cloud kitchens and delivery via third party food delivery operators ensured an income stream for them during this period.

**RENTAL MODELS POST THIRD WAVE OF COVID-19**

By the time the short lived third wave arrived in India in January 2022, both mall operators and retailers had collaborated with each other for two years and were better prepared to survive during such exigencies. This time, there was minimal rent concession offered (less than 20%) to multiplexes and beauty outlets only. Moreover, to recover the rent lost during 2020 and 2021, retailers are now required to pay a higher percentage of revenue share for a specific period to mall operators and get back to contractual rentals as soon as possible.

Figure 18

**Key Recovery Trends in Malls Post COVID-19 Waves**

**Post First Wave**

- Increase in rentals of new leases.
- Consumption recovery at 90% of pre COVID-19 levels in March 2021.
- Footfalls at 40% of pre COVID-19 levels.

**Post Second Wave**

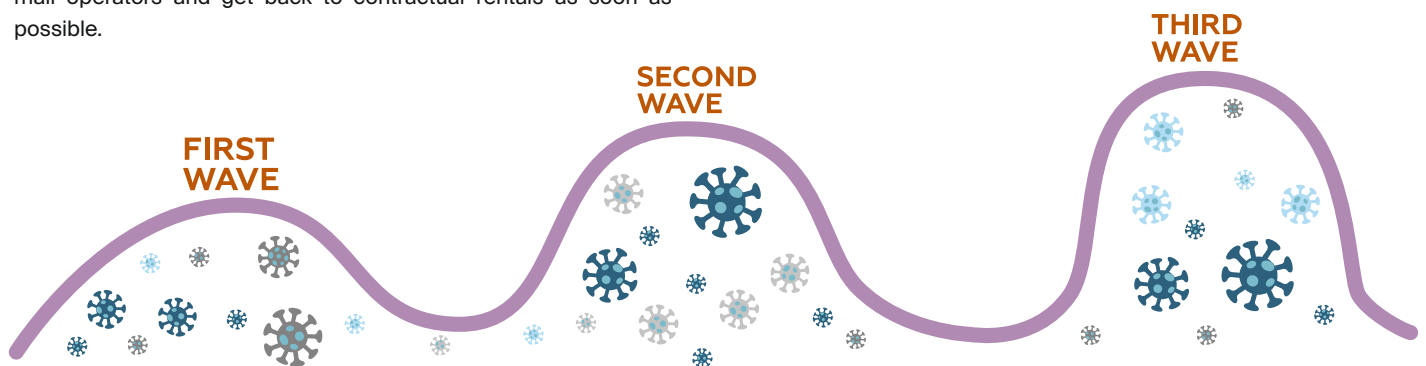
- Faster recovery observed than after the first wave.
- Consumption recovery at 90% of pre COVID-19 levels in June 2021.
- Footfalls at 40% of the pre COVID-19 levels.

**Post Third Wave**

- Retailers keen to grab space and launch new stores.
- Consumption recovery at 110-115% of pre COVID-19 levels in March 2022.
- Footfalls at 70-80% of pre COVID-19 levels during March 2022.

Source: Knight Frank Research

Grade A malls have used this pandemic as an opportunity to strengthen their tenant mix and given weak retailers an easy exit. Strong retailers have also used this opportunity to grab prime locations in malls left vacant by weak retailers at competitive rents. Going forward, retailers are now looking to lease more space and launch new stores in 2022.



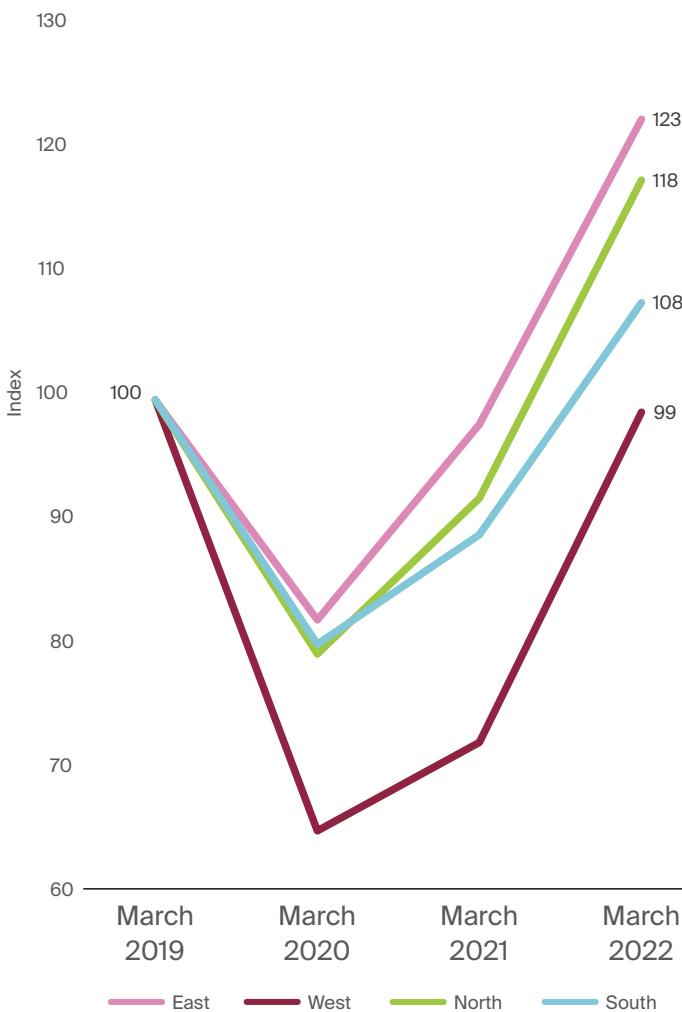
# OUTLOOK

## RECOVERY IN CONSUMPTION - REGION WISE & CATEGORYWISE SALES GROWTH INDEX

After facing a series of lockdowns and disruptions in consumption due to the COVID-19 pandemic, the retail industry seems to be back on track with consumption crossing or about to reach pre-pandemic levels across regions. For the purpose of this analysis, we took the past four financial years' organized retail consumption data from March 2019 to March 2022 and indexed the value taking March 2019 as the base year to understand the recovery trajectory for this parameter across regions and categories.

Figure 19

### Region Wise Sales Growth Trends

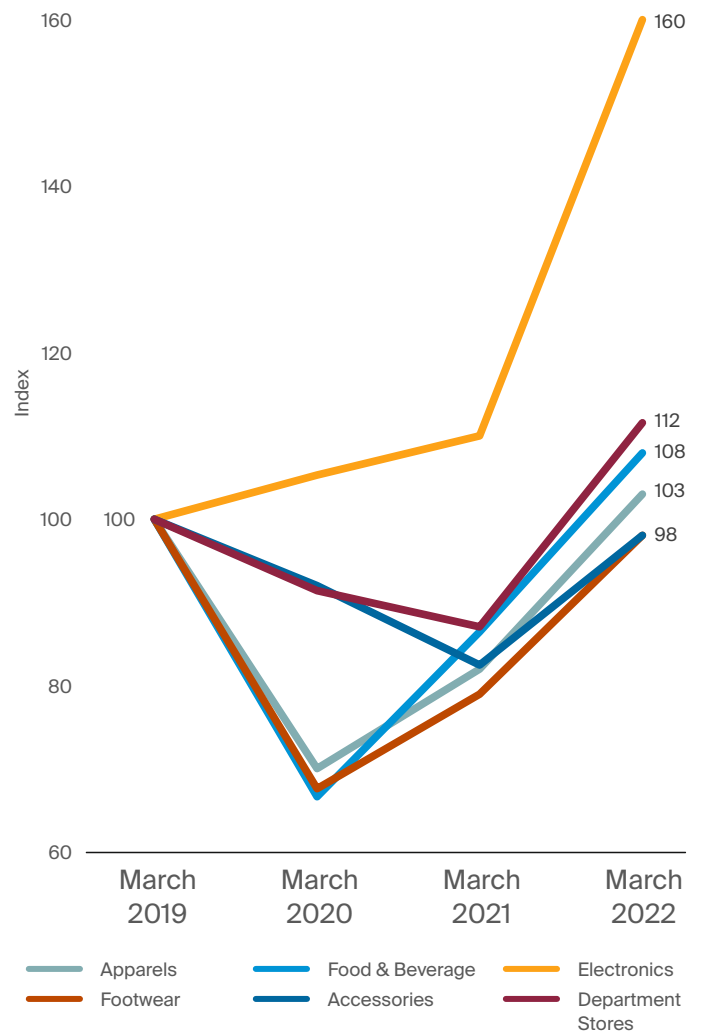


Source: Knight Frank Research, RAI  
Notes: Index base value of 100 in March-2019

Over this period, trends in sales across regions show a linear recovery after a drop in March 2020. East and North regions show a strong recovery in consumption reaching new heights by crossing pre-pandemic levels in March 2022. The South region shows improvement in recovery crossing pre-pandemic levels by the end of the period. The West region took the worst hit due to tighter restrictions and consumption was marginally less than pre-pandemic levels, at the end of March 2022.

Figure 20

### Category Wise Sales Growth Trends



Source: Knight Frank Research, RAI  
Notes: Index base value of 100 in March-2019

In March 2022, all categories except accessories, had already surpassed pre COVID-19 level sales. Over the last four years, electronics outperformed in terms of sales growth even during COVID-19 hit periods, primarily driven by the work-from-home trend and consumers opting for premium products. The food & beverage (F&B), apparel and department stores categories show healthy recovery after the third wave as consumers get back to the 'old normal' way of shopping. The growth in consumption across regions and categories as normalcy returns, is a huge relief for retailers and will help them to meet their contractual obligations with mall operators eventually.

**FUTURE PROJECTIONS ON ESTIMATED GROWTH IN ORGANIZED RETAIL SALES VOLUME AND CONSUMPTION IN SHOPPING MALLS**

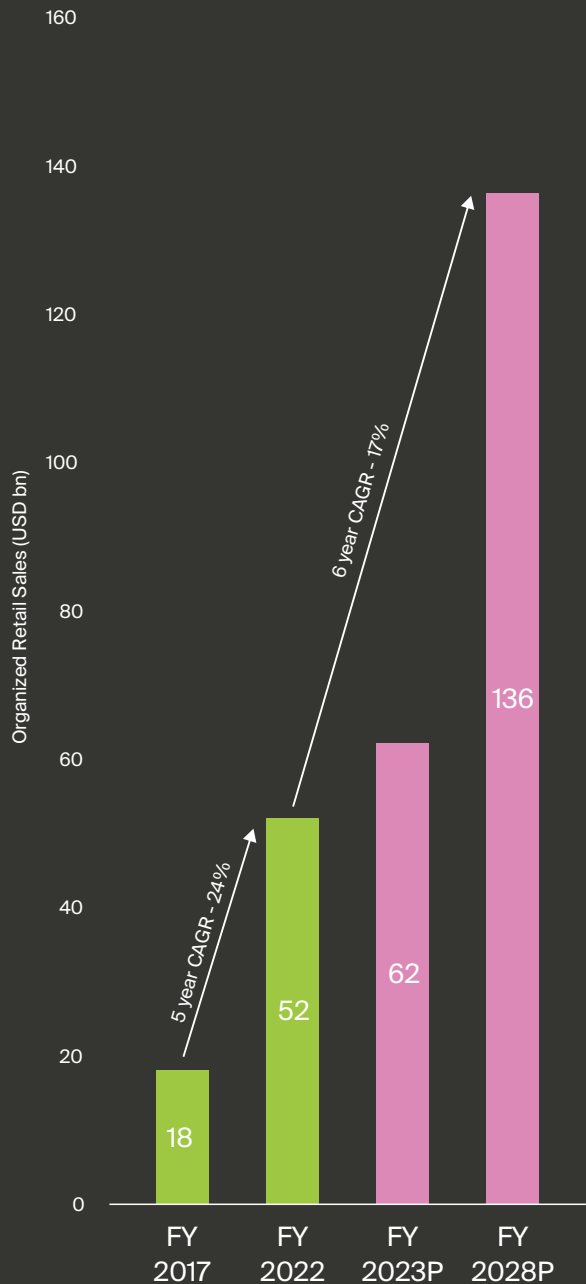
The COVID-19 pandemic caused most industries to buckle under the threat of an economic slowdown and India's retail sector story was no different. Despite the adverse impact of COVID-19 on FY 2021, India's organized retail sales are expected to grow manifold in the next six years. With economic growth, organized retail sales will also witness tremendous growth and move up the growth curve at a CAGR of 17% during the FY 2022-28 period. Evolving consumer spending patterns and increasing disposable income levels are redefining India's retail landscape. The share of organized retail in the Indian retail industry has comparatively increased in the past few years and is expected to grow even further in the coming years.

In this section, we discuss the current and future projections of organized retail sales followed by an estimation of the potential consumption in malls in the next six (FY 2023 to FY 2028) financial years. Our estimates are for potential consumption in malls to the top 8 markets of India.

The retail industry will continue to account for 10% of India's Gross Domestic Product (GDP)<sup>13</sup> for the next five financial years. The share of organized retail sales is derived from the size of the retail industry. These assumptions and variables were further verified with multiple retail industry experts during our interviews for this report.

Figure 21

Forecast of Organized Retail Sales Volume



Source: Knight Frank Research, IBEF  
Note: FY 2023P, FY 2028P denotes the projected size by FY 2023, FY 2028

<sup>13</sup>India Brand Equity Foundation (IBEF)



**Devang Sampat**  
Chief Executive Officer, Cinepolis India



From the perspective of footfalls in cinemas, March, April, and May 2022 have seen a higher monthly average when compared to 2019 and we have had one of the best quarters ever for the multiplex industry. People are flocking to the cinemas again and the overall business scenario is back to how it was before the pandemic. Our expansion journey has continued through the pandemic, and we plan to add 50+ screens in the short term which are in various stages of development. We remain bullish on the success of the exhibition industry and the multiplex model over the long term. Multiplexes are a key anchor for any shopping mall and help retailers generate incremental sales from movie goers. The lure of the big screen is not going anywhere anytime soon, as cinema is ultimately a social experience which brings people together.



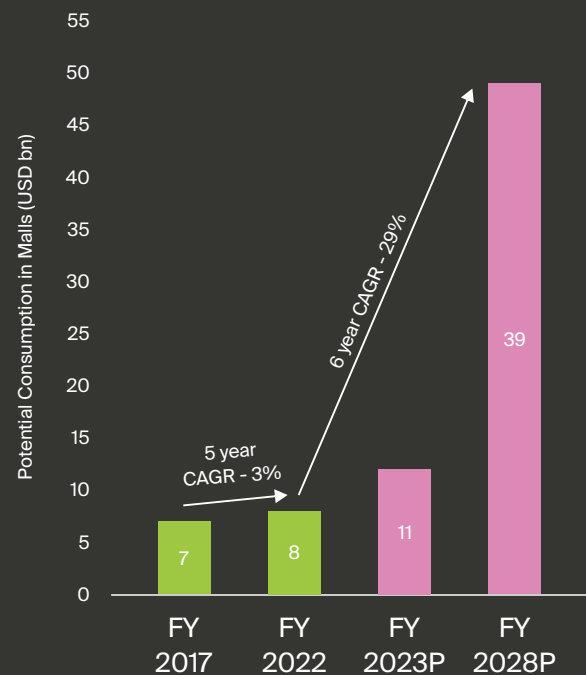
The organized retail sales grew at a CAGR of 24% between FY 2017-22. Growth drivers such as healthy economic growth, improved retailer confidence, sentiments towards mall development, and increasing disposable income of Indian consumers are expected to accelerate the volume to further heights in FY 2023. However, the threat of restrictions from COVID-19 waves and geopolitical tensions may continue to persist in FY 2023.

Per Knight Frank Research, organized retail sales volume is estimated to grow at a CAGR of 17%, from USD 52 bn in FY 2022 to USD 136 bn by FY 2028. Shopping malls and high streets play a vital part in this growth story and are estimated to drive the bulk of the volume as the pandemic led push to sales in the organised retail sector is expected to sustain.

Since shopping malls are one of the key assets in retail real estate in terms of their ability to attract footfalls, ease in leasing, and better diversification benefits, we further try to estimate the potential consumption that can happen in malls across the top 8 cities in coming periods.

Figure 22

### Forecast of Potential Consumption in Malls across Top 8 Markets



Source: Knight Frank Research

Note: FY 2023P, FY 2028P denotes the projected size by FY 2023, FY 2028



Shopping malls were at the receiving end of a major setback due to the sudden closure during COVID-19 lockdowns resulting in severe loss of consumption in FY 2021. During the FY 2017-2022 period, consumption in malls grew at a CAGR of 3%. By FY 2023, we estimate the potential consumption to cross pre COVID-19 levels reaching USD 11 bn. Per Knight Frank Research, potential consumption in malls across the top 8 cities is estimated to grow at a CAGR of 29% in the FY 2022-28 period reaching USD 39 bn by FY 2028. This high growth of revenue in shopping malls is largely projected due to increasing mall supply in the next six years coupled with the sustenance of rising consumption demand. Entry of new brands in the market, changing demographic profiles and evolving consumer tastes and preferences are expected to sustain this growth in consumption. The long-term outlook of the mall business in India continues to remain promising for the next few years.<sup>14</sup>

<sup>14</sup>Assumptions:

1. Retail Industry (USD bn) - 10% of Indian Gross Domestic Product (GDP)
2. Potential Consumption in Malls (USD bn) - Product of average consumption in a mall and Gross Leasable Area (GLA) of all operational and upcoming malls in top 8 markets across periods.

## GLOSSARY

### **Artificial Intelligence**

A branch of computer science that focuses on building and managing technology that can learn to autonomously make decisions and carry out actions on behalf of a human being.

### **Built-Up Area (BUA)**

Built-Up Area (BUA) is the comprehensive area of the mall which is the sum of the Gross Leasable Area (GLA) and area that cannot be leased including shared area, washrooms, and other non-leasable area.

### **Concept Stores**

Stores where retailers offer well curated products, services and experiences connected to a theme or a concept.

### **Dark Stores**

A retail distribution center or an outlet that caters exclusively to online shopping.

### **Digitalisation**

A business model reliant on digital technologies.

### **Drive In Theater**

A form of cinema structure consisting of a large outdoor movie screen, a projection booth, a concession stand and a parking area for automobiles.

### **E-commerce**

Buying and selling of goods over internet.

### **Experiential Retail Hub**

Physical retail hubs which provide an immersive, interactive, and sharable shopping experience.

### **Foreign Direct Investment**

Cross border investments in which the investor residing in one country establishes a lasting interest as a business entity in another country.

### **Gross Leasable Area (GLA)**

Gross Leasable Area (GLA) is the total rentable area of a mall that can be leased out to tenants.

### **High Street**

Primary business street of a city or town consisting of shops, banks and other businesses catering to the basic needs of ordinary public.

### **Mixed-use Development**

A kind of urban development or zoning type that blends multiple uses such as residential, commercial, housing, office, retail, hospitality, medical etc.



### **Mall Deferment**

Delay in mall construction and change in official completion timelines for upcoming supply.

### **Mall Management**

Mall management includes safety and health protocols (Washrooms/Common Area Maintenance/Safety Equipment Awareness/Security Staff for consumers on every crucial mall check point).

### **Neighbourhood Malls**

Neighbourhood Mall is an industry term that refers to malls or shopping centres in the neighbourhood. These malls are typically smaller in size and are anchored by a supermarket store.

### **Occupancy**

Occupancy is the Gross Leasable Area (GLA) leased to the tenants in a mall.

### **Outlet Mall**

A group of shops, usually outside a town or city which sells clothes, goods etc. at a reduced price.

### **Open Air Theatre**

A place where cinemas are projected in an open air.

### **Potential Consumption in Malls**

Potential Consumption in Malls mean the maximum retail sales that can happen in a mall within a given time period.

### **Tenant Mix**

Tenant Mix means a combination of mapping and positioning of retailers present in a mall.

### **Urbanisation**

Population shifts to urban areas which lead to expansion of cities.

### **Vacancy**

Vacancy is the portion of Gross Leasable Area (GLA) that is ready to be leased but not yet occupied by tenants.

### **Warehouse**

A large building where manufactured goods are stored prior to their sale or distribution.

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