



Reworking the retail value chain

POST

C  VID-19

REPORT BY

360 REALTORS
COMMERCIAL

Foreword



Indian retail has grown aggressively over the years, synonymous with India's economic growth & wider prosperity. As per research by BCG, the total amount of retail consumption in India is expected to reach USD 1.1 trillion (pre-COVID analysis) by 2020. A robust retail market has also put the Retail Real Estate on a strong footing.

Although organized retail constitutes just 9% of the overall market, it is up for exponential growth on the back of changes in consumer behavior, growing middle class, & increased urbanization. As per estimates by 360 Realtors, the total number of malls in India is expected to reach 421 by 2022, with an aggregate area of around 120 million Sq. Ft. Interestingly, organized retail is no more just limited to metro cities but has also successfully penetrated Tier 2 & 3 cities. Lured by its attractiveness, private equity is also pouring a large sum of money into the burgeoning segment.

However, the growth cycle has been hit hard after the outbreak of the COVID-19. Malls & high streets were amongst the initial industries that got affected by the whiplash of the perennial coronavirus. Even, before the government announced an all-out shutdown, malls were closed. This has brought the business to a grinding halt with zero revenue flow, resulting in an unprecedented crisis.

The adverse impact on retail Real Estate will continue even after the suspension of

lockdown, as many individuals will adhere to certain self-imposed social distancing & avoid crowded places. It might take some time for normalcy to be restored & sentiments to revive.

New themes, practices, & value propositions will emerge across the value chain as an aftermath of the current crisis. Flash sales are going to be common, as the focus will be on turning around the existing inventories. The governing bodies might be forced to prescribe newer standards of footfall density, safety measures, & layout management. Human touch has to be minimized to control potential risks.

Retailers & landlords need to be prepared & equipped for such possible changes. Likewise, property management is now going to play a pivotal role, as the focus will be on improving the overall hygiene levels & offer better safety standards for customers, staff, & other visitors. As a result, the incremental rise in the cost of operations is inevitable.

Even in the time of crisis, retailers that adopted an omnichannel model with a strong emphasis on online sales continue to show resilience & navigate through these testing times. The ones, who solely relied on the brick & mortar model, were the worst hit. In the foreseeable future, retailers will design & execute newer marketing strategies as the e-commerce model will rise substantially.

In an offline-online design, mall management also needs to play a proactive role by developing digital capabilities. More apps will be developed wherein if an SKU is not available in the store, it could be booked online & dispatched to the customer. Retailers & malls will augment their overall sales by synergizing offline & digital marketing. The offline & online channels would not exactly compete but complement each other.

The slowdown in retail sales is inevitable & to ensure faster recovery, every stakeholder-retailer, landlord, mall management, supplier,

& the govt. needs to take coordinated steps.

In order to lessen the ill-effects, retailers are asking for a waiver in rental rates. Retailers are also demanding to forego minimum guarantee & switch to revenue sharing based rentals with malls (at least for a year). Mall operators need to consider such requests.

Similarly, as sales numbers have plunged badly, the retail industry will look forward to more government-backed incentives such as waiver in tariffs, a moratorium in loans, job support subsidy, concession in electricity bills, etc. to bear the loss. The govt. also needs to realize the looming crisis & come up with a redressal plan to help retailers cope with the loss & ensure continuity of business.

Likewise, malls need to go the extra mile & offer numerous incentives in the form of revenue sharing, marketing support, digital channels to help fashion, apparel, footwear brands to turnover the inventory as soon as possible. In comparison to experiential retail such as entertainment, F&B, & wellness, these will suffer more.

Amidst such muted industry sentiments, there still are green shoots for potential buyers. As the market has turned bearish, investors with a mid-term or long-term perspective to make wealth can avail better deals in the markets. Prices are in correction mode & this might be an opportune time to enter.

The arrest in the growth will take some time to reverse- however, the overall fundamental looks bullish. Large population, huge aggregate demand, expansive middle class, & evolving consumer preferences will continue to dovetail the market in a positive direction in the times to come. What is required is a reworking of the strategy based on adherence to stricter safety measures, more coordinated steps to distribute the losses, & smarter investments in digital innovations.



Ajay Rakheja

SVP & National Head - Commercial

The implication of COVID-19 on Indian Retail Real Estate



The Indian Retail industry has been growing steadily, underpinned by high demand, expansion in the middle class, spurred urbanization & change in consumer preference. In 2020, as per IBEF (India Brand Equity Forum), the total amount of private

consumption is expected to reach USD 3600 billion, growing at a pace of a CAGR of 22% between 2016-2020. Likewise, the value of retail consumption is expected to reach USD 1100 billion from USD 630 billion in 2015

**USD 630
Billion
2015**

**USD 1100
Billion
2020**

Source: BCG

Although a majority of Indian retail is run by the unorganized sector, the organized retail, which currently holds a share of 9%, is also deepening its foothold. At the onset of the 2000s, there were very few malls in India.

However, at present there are almost 350 malls, which chronicles the growing propensity for modern retail in Indian households.

The growth in Indian organized retail has also been dovetailed by policy reforms. During the previous decade, FDI in Single Brand Retail Trade (SBRT) was capped at 51%. By 2018, there have been iterations of reforms, which have enabled 100% FDI in SBRT without any prior government permission. In Multi-Brand Retail Trade (MBRT) FDI is capped at 51%, but in food MBRT, 100% FDI is again allowed subject to government permission.

International retailers in big volumes are eying India to tap into the growing consumer market. They are also drawn by the fact that the cost of running operations is cheaper in India when compared to their home countries. Retailers are coming either on their own or through JVs with Indian companies. In 2020, around 50-80 international retailers were scheduled to enter the Indian market. However, after the COVID crisis, these numbers can drastically alter.



SBRT-Single Brand Retail Trade



Multi Brand Retail Trading



MBRT Food Retail



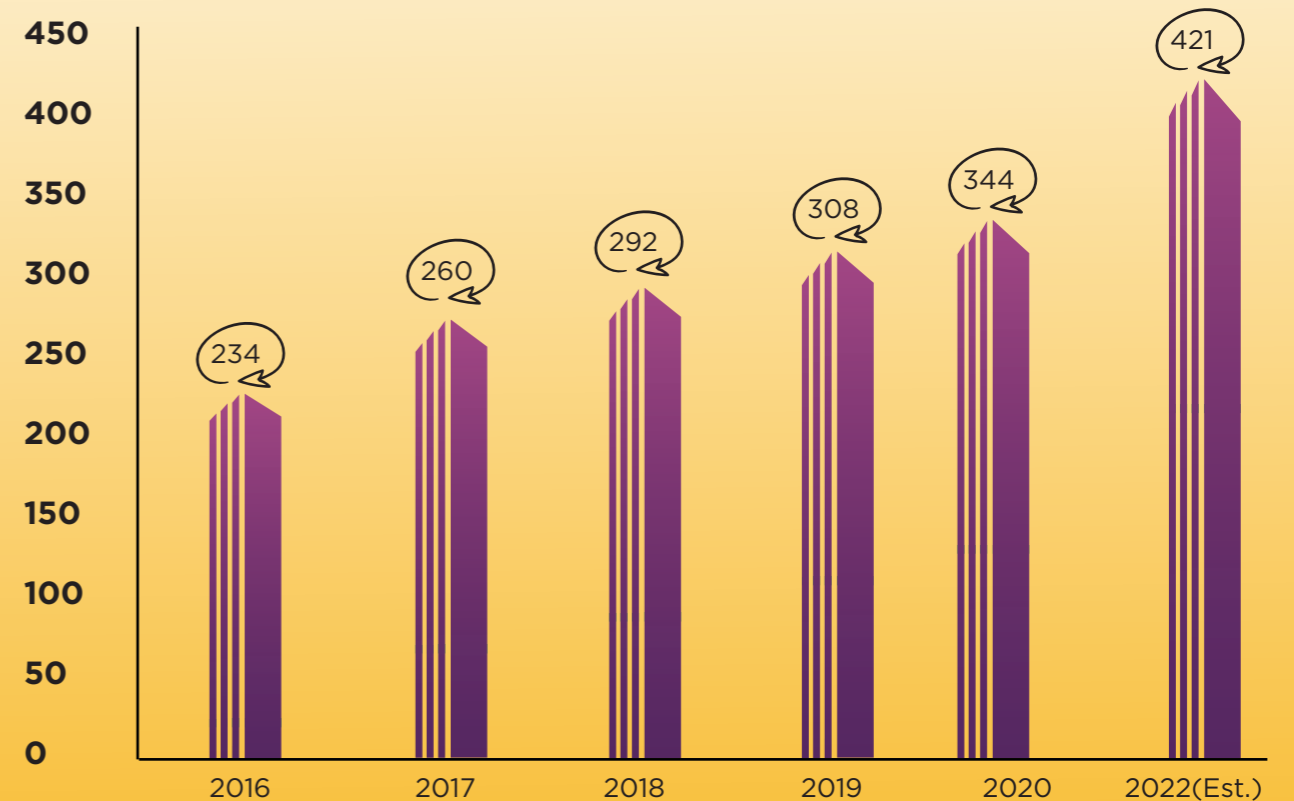
Cash & Carry Wholesale



As organized retail is growing, so is the demand for retail Real Estate in the country. In 2020, the total malls in India are expected to reach roughly 350 with a total estimated mall retail space of slightly higher than 97 million Sq. Ft. Around 70% of the malls in India are concentrated in the seven major metros- Delhi

NCR, Mumbai Metropolitan Region (MMR), Bangalore, Hyderabad, Kolkata, Chennai, & Pune. However, recent years have also seen a notable rise in organized retail in Tier 2 & 3 cities as well such as Lucknow, Cochin, Mysore, Kanpur, Indore, Cuttack, etc.

Mall Supplies in India



Source: 360 Realtors research



The Private Equity funds were also drawn towards the booming organized Retail Real Estate in the country. In the insert of after period 2015-2019, Retail Real Estate drew institutional money worth USD 2.8 billion, out of which around 59% came from international sources. This further underscores the inherent attractiveness & robust fundamentals of the growing Indian Retail.

In the next 2 years, by 2022, around 75+ new malls are scheduled to enter the market, driven by growing demand for organized retail. The new malls will roughly contribute around 23 million Sq. Ft of retail space. Recent times have also seen closing down of some of the poorly managed malls, as there is growing emphasis on quality standards. Empirical evidence has suggested that malls that encourage better socialization & are laced with bigger brands have better chances to perform. There have also been changes in the mall-mix patterns. Earlier, fashion & apparel used to be the mainstay. Over the years, it was replaced by experiential retail such as F&B, entertainment, wellness, etc.



The Impact of COVID-19

The outbreak of COVID & the stringent social distancing & lockdown measures taken by the govt. has badly undermined an otherwise healthy retail sector in the country. Apart from convenience stores & a few departmental stores, most of the malls, high street retail, F&B enterprises are closed, which has badly affected the business in the last quarter. In return, this has started to impact the realty business as well. As rentals comprise of around 15-20% of the total costs, most of the retailers are asking for a rental waiver or rebate from their landlord.

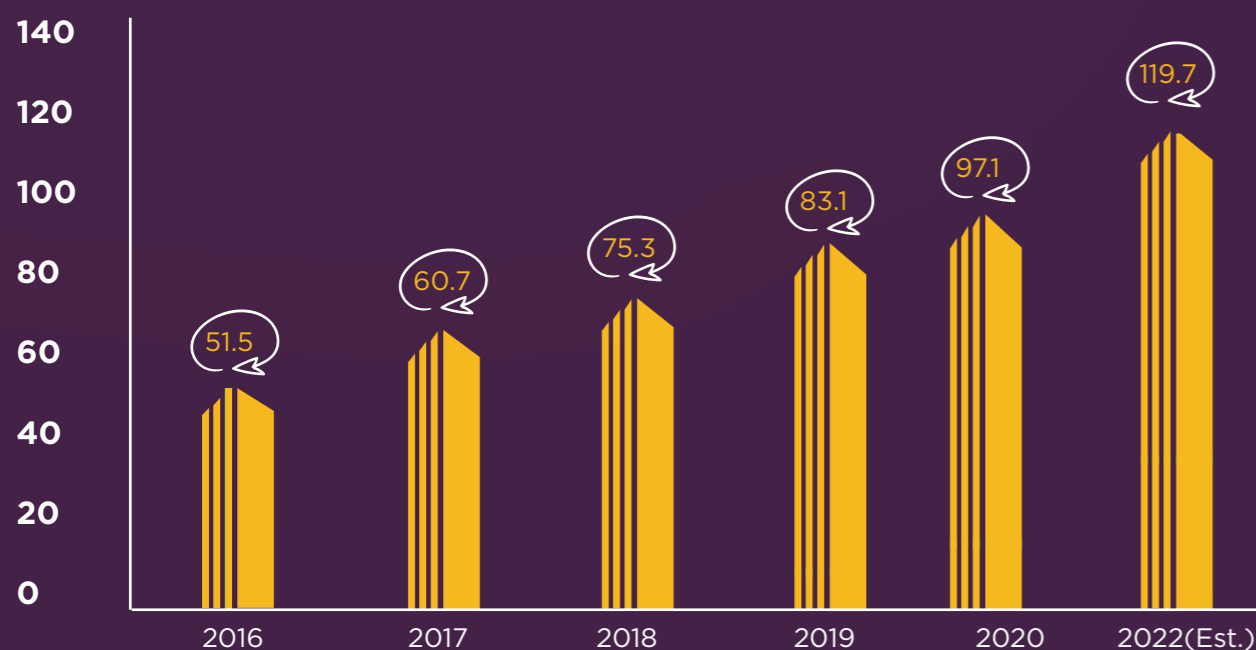
The adverse impact on retail Real Estate will continue even after the suspension of lockdown, as individuals will still adhere to certain self-imposed social distancing & avoid crowded places. It might take some time for normalcy to be restored & sentiments to revive. Even post that, weakening private consumption will continue to hit the retail markets.

New insights & themes will emerge as an aftermath of the current crisis. The governing bodies might be forced to prescribe newer standards of footfall density, safety measures & layout management. Retailers & landlords need to be prepared for such possible changes. Likewise, property management is going to play a pivotal role as the focus will be on improving the overall hygiene levels & offer better safety standards for customers, staff & other visitors.

Even in this time of crisis, retailers that adopted an omnichannel model with a strong emphasis on online sales continue to show resilience. The ones, who solely relied on the brick & mortar model, were the worst hit. In the foreseeable future, retailers will redesign their marketing strategy as the e-commerce model will rise. In an offline-online design, malls will play a proactive role by developing digital capabilities. New apps will be developed, wherein if an SKU is not available in the store, it could be booked & dispatched to the customer. In these retailers & malls will augment their overall sales by synergizing offline & digital channels.

After an inevitable slowdown in sales during the H1, retailers are expected to put more targeted efforts to recover sales in the 2nd half of the year. Apart from building digital capabilities, large-scale flash sales will be common to turn-around the out-of-stock inventories. Similarly, as sales numbers have plunged badly, the retail industry will look forward to more government-backed incentives such as waiver in tariffs, a moratorium in loans, etc. Retailers are also demanding to forego minimum guarantee & switch to revenue sharing based rentals with malls. Likewise, malls need to go the extra mile & offer numerous incentives in the form of revenue sharing, marketing support, digital channels to help fashion, apparel, footwear brands to turnover the inventory as soon as possible. These are the worst-hit in the crisis.

Retail Mall Space in Million Sq. Ft



Source: 360 Realtors research

The 5 steps Mckinsey Model for the Retail Industry



1 Resolve

Current loss is inevitable, offer rebates & concessions to retailers to share the risk, take care of employees, partners & customers



2 Resilience

Address near term cash management issues, take a close look at the current liquidity profile, build & utilize digital capabilities



3 Return

Make a detailed plan to return, Continue developing digital capabilities, think of touchless & self-checkout options to win back the trust of customers, Incentivize fashion & apparel brands



4 Reimagine

Reimagine alternate models, revenue sharing rental models, higher safety standards, Omni-channel distribution



5 Reform

Get clarity on regulatory changes in property management, safety standards, layout management, etc.



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