

REALTY RENTALS

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Prices seen to be stabilizing with few takers for mall space

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Retailers who have endured skyrocketing real estate costs for years are finally seeing hopeful signs of rentals stabilizing—and even declining—in the coming months.

"The first sign is already in," says Rajan Malhotra, chief executive of Big Bazaar, India's largest chain of hypermarkets. "Builders are willing to discuss (lower rentals) now. There has been a sudden shift." High rentals had forced the chain to "go slow" on signing up shopping space in recent months.

Manmohan Agarwal, head of corporate affairs at discount retailer Vishal Retail Ltd, has also noticed a change in the attitude of shopping mall developers. "You see a different body language," he says. "Proposals that builders would not look at a year ago, they are now willing to discuss."

Rentals shot up in recent years as the economy expanded, land valuations surged

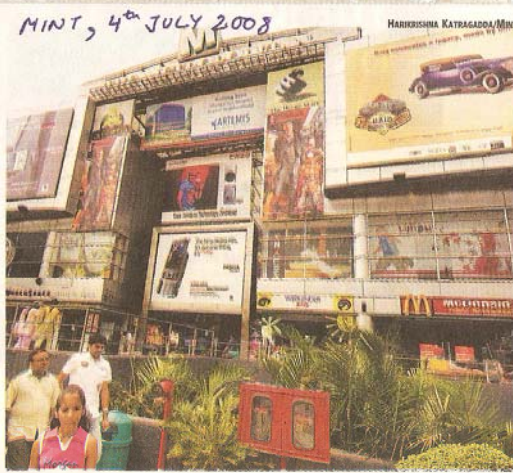
and prices of construction raw materials such as cement and steel leapt, forcing shopping mall builders to pass on rising costs to tenants.

A shortage of space also helped builders dictate terms, but that's beginning to change as more malls open.

Big Bazaar's Malhotra expects shopping mall rentals to drop starting in the next quarter, but some analysts say the slide has already begun. A softening of the overall real estate market has caused property prices to decline by up to a quarter in Delhi suburbs such as Gurgaon and Noida this year.

Retail real estate consultant Pranay Sinha says a glut of malls that are poorly conceived, designed and located would kick in starting next year and that could force prices down even more. "It will become acute in the first quarter next year," he warns.

Some malls are struggling to find retail tenants and are lowering rentals, says Rajneesh Mahajan, director of transac-



Sudden glut: A shopping mall in Gurgaon. Rentals rose to unsustainable levels as the economy expanded and land valuations surged.

tion services for retail at property consultancy Cushman and Wakefield. Some malls in Faridabad, another Delhi suburban town, have no takers, he added.

"There has been a huge amount of development in malls and not all of them are of the right size or the right product," Mahajan says.

Modern retail is a relatively new phenomenon in India that dovetailed with a consumer spending boom as an economy expanding at an annual pace of up to 9% pushed up middle-class incomes.

That drew conglomerates such as Reliance Industries Ltd., the Aditya Birla Group

and Tata group into retail.

Retail consultants estimate that per-square-foot rentals doubled in the last two years, making expansion unviable for retailers.

Rentals had jumped to "unsustainable levels", admits R. Nagaraju, general manager for corporate planning and strategy at Unitech Ltd, the country's second biggest developer.

"Rentals have to be sustainable. Retailers should be able to make money," Nagaraju says. "I feel rentals should come down."

Nagaraju says a retailer can sustain a rental of about Rs150 per sq. ft per month if it is doing 100 times the business, or

Rs15,000, for the same space. But mall rentals in New Delhi have touched Rs662 per sq. ft, Rs478 in Noida and Rs385 in Gurgaon, according to Cushman and Wakefield.

"Developers were pitting one retailer against the other," says R. Subramanian, managing director of Subhiksha Trading Services Ltd. "It was almost like an auction market." Rentals have surged so much over the years that some mall developers are even saying a correction will be welcome for the industry.

Almost each retailer with a shopping mall outlet is making losses, prompting some such as discount-store operator Subhiksha to move to cheaper street locations, said Sunil Tandon, senior vice-president at New Delhi-based Taneja Developers.

Tandon expects a correction of between 20% and 25% in mall rentals over the next few months. "It is a demand-supply game," Tandon said, adding, "two to three years back, the demand for malls exceeded the supply. So mall rentals went up. But now, the supply is more than the demand, so rentals will correct."

But while mall rentals are showing signs of stabilizing or declining, high street locations such as Connaught Place and South Extension in New Delhi are commanding even higher prices, says Gibson Vedamani, chairman of the Retailers Association of India.

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