Convergence of Retail and Office Real Estate in India

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RETAILERS ASSOCIATION OF INDIA

Introduction

Over the last two decades, we have seen emergence of several new business districts in tier-I cities. This trend started when the cities were expanding rapidly and their conventional Central Business Districts (CBDs) had become saturated or did not serve the needs of corporate occupiers. As the work culture evolves, the need to have a robust retail presence is also felt more strongly than ever before. We sense the gradual birth of a new format of retail in such office agglomerations, which we would like to term as Office-Retail Complexes (ORCs).

As India increasingly integrates into the global economy and the number of expats living in cities like Delhi-NCR, Mumbai and Bangalore increase, a business district remains incomplete without certain retail segments. Today, the success of a business district not only depends on its office rentals and physical infrastructure but also on a robust social infrastructure for the time-conscious office-goer. When there is a captive consumer base for retail, how can the dynamic sector be far behind?

Bandra-Kurla Complex and Gurgaon have not only become the de-facto CBDs in Mumbai and NCR respectively but they are also attracting more retail. Going forward, the appeal of these office districts in the eyes of multinationals and premier domestic companies will be enhanced to some extent by the presence of retail.

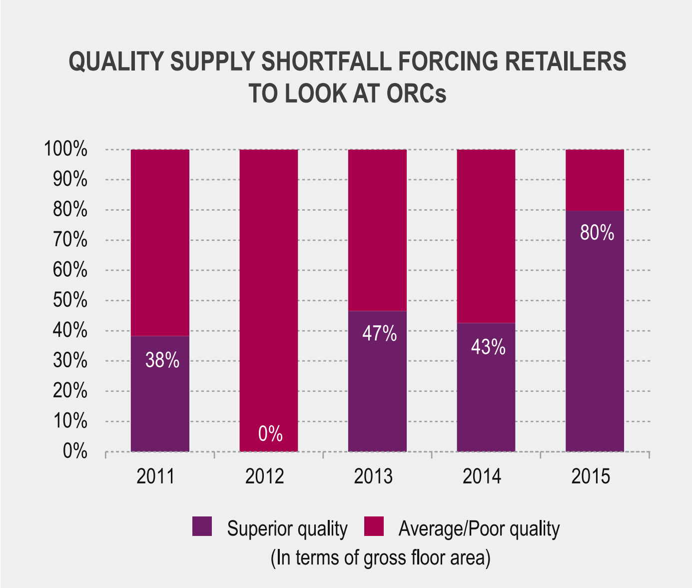
Retail real estate too has been constantly evolving across major Indian cities, keeping pace with changing needs of consumers and retailers. It has gone from unorganised formats to organised ones and also made the Indian high streets more organised than ever before. Ever curious and agile, the sector is now making inroads into modern office agglomerations that we mentioned above.

Though the format of ORCs is currently a phenomenon seen only in the major tier-I cities of India, we could soon witness the concept mushrooming in other cities as well given its relevance and the immense benefits it offers to retailers and the corporate crowd. We make an attempt to introduce the concept, character and status of this newest retail real estate format through this paper.

Why is retail and office real estate converging?

SUPPLY OF QUALITY RETAIL SPACE IS LIMITED

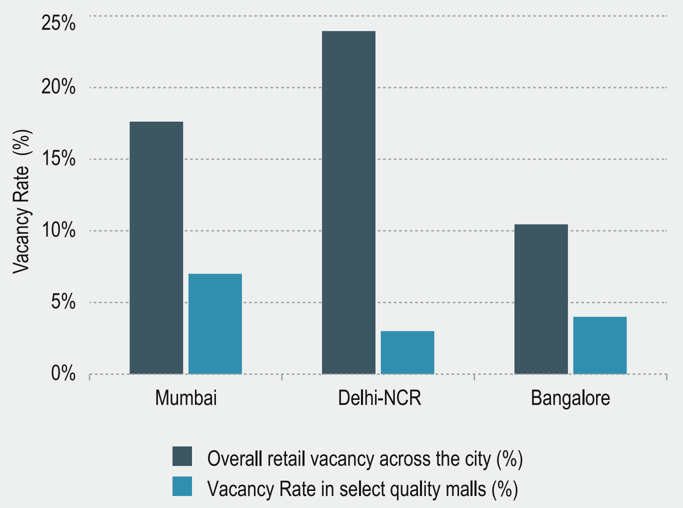
For some time now, we have been harping on the issue of retail real estate going through a turnaround led by factors such as changing consumer preferences and a constantly evolving market place. In general, we are witnessing higher levels of vacancies across many malls while the fact remains that there is a dearth of quality retail space across major Indian cities.



The underlying reason is that many developers of retail malls are only partially invested in their organised retail venture. Many experimented with retail like they did with commercial office space – build, sell, and do-not-operate. However, organised retail requires a little more investment of time and money besides professional management. It is not a straight, square floor plate but rather a race-track flow design allowing for maximum exposure. Developers who aimed at a combination of good location and modern design as parameters and followed a professional mall management approach managed to build iconic developments while others are weathering away with time. Keeping these in mind, if we were to look at the new supply of retail malls that came up during the last five years, only a fraction would qualify to be a quality asset while most others fall in the average or poor category malls which are suffering from poor footfalls and issues related to unviability.

PRIME MALLS ARE HOUSEFUL

Due to factors mentioned above, there exists only a handful out of the plethora of malls across major Indian cities that are well-performing, thereby becoming darling of retailers, both global and domestic. These malls are quality organised retail formats executed by well-known developers and operate on a grand scale, offering not just conventional shopping but an experience. These malls are truly limited edition; currently operating on near maximum capacity with global retailers vying for space in them. Most of them serve as the gateways for such retailers when entering India. Following chart shows the difference between overall vacancy rates in malls across top-3 retail cities of India vis-à-vis few of those well-performing quality malls in those cities –



City	Names of select quality malls considered
Mumbai	High Street Phoenix, R-City Mall, Oberoi Mall, Viviana Mall, Inorbit Mall Malad, Inorbit Vashi, Infinity Mall Andheri, Infinity Mall Malad, Korum Mall
Delhi-NCR	Select City Walk, Ambience-Gurgaon, Ambience-Vasant Kunj, DLF Promenad, DLF Emperio, DLF Courtyard, Pacific Mall-Subash Nagar, Pacific Mall-Ghaziabad, The Great India Place, Shipra Mall, MGF Metropolitan, World Square Mall
Bangalore	UB City, Forum-Koramangala, 1 MG Road, Garuda Mall, Orion Mall, Phoenix Mall, InOrbit Mall

Note: Few malls that recently commenced operations (in 4Q15) have been ignored as the vacancy there was high for obvious reasons, although showing clear signs of a swift fall.

These malls not only are operating at maximum efficiencies, but also command the most premium rents while enjoying healthy trading densities and heavy footfalls. But they remain a small group of malls.

UB CITY, BANGALORE

STANDALONE MALLS MAKING WAY FOR MIXED-USE DEVELOPMENT?

A look at future supply of organised, quality retail tells the story that rather than learning from experience and evolving, many developers are evincing only partial interest in standalone mall development. This, at a time when Indian domestic consumption story is booming like never before. Not only has average spending on entertainment, apparel and Food & Beverage (F&B) increased, there has also been demand for global brands across these segments. As brand awareness increases, the desire to consume foreign brands is on a steady rise.

While this augurs well for those few quality malls that will continue to remain in vogue, this knowledge is tinged with a slight concern for retailers. In the absence of ready space and low future quality supply, where do the lifestyle and premium brands go? While high streets could come as a popular alternative for some retail categories, many would continue to prefer organised retail formats. Foreign brands, entertainment retailers, F&B outlets and other premium fashion brands would continue to leverage on modern retail development.

Developers, on the contrary, are now looking at experimenting more with a mixed-use format, rather than standalone retail formats, allowing for quality retail on the lower floors and commercial spaces on the upper floors. Such mixed-use retail developments have opened-up a new format that would find high amount of favour from select categories' retailers. For instance, mobile manufacturing companies would want to open flagship stores in office districts in order to demonstrate new product / service offerings. Often, first time buyers of expensive handheld gadgets are office-going employees, and a store in the same ORC would entice them to check out the store and products..

Similarly, while F&B as a category occupy a dominant 21-25% area share in the organised malls, leasing by speciality food & beverage outlets that market niche menu have occupied only 5-6% of the overall gross leasing volume in malls. However, such speciality F&B restaurants/pubs have made a beeline for ORCs across major Indian cities. Likewise, it would make great sense for retail categories such as telecom services, office formals, leather bags & accessories, high-end fitness centres, premium salons, and eyewear to have flagship stores in the ORCs. These categories thrive on office goers and will act as complementary support retail.

OFFICE-RETAIL COMPLEXES TO SUIT SELECT RETAIL CATEGORIES

Select retail categories such as F&B (Quick Service Restaurants, Coffee shops, Fine Dining, Pubs, etc.) or BFSI (bank branches, ATMs, broking services etc.) usually target young employees as they have the necessary spending power and the required preference for such services. Over the years, employees have got accustomed to getting bank transactions done during small office breaks and a business meeting can be organised around the lunch time or coffee breaks at a nearby F&B outlet. Currently, of the total retail presence in office buildings across major tier-I cities, a dominant 26% is occupied by F&B while a significant 23% is occupied by retail BFSI outlets.

Retailers too have offered their services in such business locations keeping in mind the preferences of office employees. Most coffee shops around business districts come with a free Wi-Fi, laptop charging points etc., and many fine dining outlets strictly operate on the basis of prior appointment in order to minimise waiting time. Since most part of the day of a working individual is spent at office during weekdays, certain retail services will benefit immensely by locating themselves close to business districts.

Colleagues increasingly socialise over a cup of coffee

Today, more meetings happen over lunch / dinner as opposed to board rooms

People prefer dealing with financial matters at work than doing it at leisure

FACTORS LEADING TO A NEW ECO-SYSTEM

Retail area in office buildings, being located typically on the ground and/or first floor, is likely to command a rent premium compared to office space in the same building. This premium could range from 1.1X to 3X over and above the rents applicable to office occupiers. There are a few reasons why higher rents for retail are justifiable –

1) Returns from retail property are more dynamic compared to that from office market, which is largely seen as a stable asset class. Retail properties demand active management as churns could be more frequent and the sector is more at risk to frequent competition from nearby stores, new entrants or changing consumer preferences. Therefore, as risks are high, rewards should be higher.

2) Unlike in office buildings, where most of the interior work is undertaken by the occupier over a warm shell floor, retail area is typically handed over to a retailer with some basic interior done. Hence, rents applicable to retailer will be higher.

3) A typical vanilla retailer (most office buildings would have vanilla or mini anchors as retailers) would demand not more than 5000 sq ft of area. As against that, office occupancy in modern office buildings is ideally not less than 10,000 sq ft. Smaller the floor space leased and shorter the lease agreement, applicable rent will be relatively higher.

Besides earning a premium from retail properties, retail area also adds to the overall appeal of the office building in commercial districts. Physical retail is imperative for elevating the social infrastructure quotient of a locality. Such zones are also valued highly by office employees for recreation and definitely enhance the overall appeal of such buildings for occupiers.

Office-Retail Complex (ORC) – a trend in the making

TIER I CITIES SHOWING THE WAY

Given that the examples of Office-Retail Complexes (ORCs) are few in cities such as Pune, Hyderabad, Kolkata and Chennai, we can very well say that the phenomenon is largely restricted to the major tier-I cities of India – Mumbai MMR, Delhi-NCR and Bangalore. Mumbai and Delhi-NCR have witnessed a higher scale of development as far as ORCs are concerned with many office districts offering this option to retailers. These two cities have substantial speculative office stock that not only gets a ready captive audience but also offers good visibility and is able to attract walk-in customers.

The trend is not as big in Bangalore as these two cities due to the presence of large IT campuses and Built-to-Suit (BTS) offices, which do not offer the same kind of visibility to attract incremental footfalls.

TENANT MIX IN ORCs: F&B AND BFSI DOMINATING THE FORMAT

Tenant mix in ORCs of the three tier I cities combined, shows a heavy concentration of **Food & Beverage (F&B)** players in terms of tenant count. Naturally, the catchment offers a ready market for Quick Service Restaurants (QSRs), coffee shops and fine dining restaurants. Given an office catchment, we have observed that the casual dining concept – local restaurants that serve an elaborate menu – often gives this market a skip. On the other hand, speciality fine dining restaurants (Chinese, Continental, American etc.) find this market place lucrative based on their quick service models. Once decided on the cuisine, employees would want to spend less time deciding on what to order. Often, business meetings happen over a cup of coffee or during lunches / dinner, and again a fine dining restaurant would be highly preferred over a casual dining set-up. Nevertheless, for those seeking casual dining options, QSRs would be their first choice given the economical rates and quick turnaround.

Second most popular retail is the **Banking & Financial Services (BFSI)** category, with 23% share in the combined tenant count across India's tier-I ORCs. This category includes bank branches, ATMs, and retail outlets of equity brokerages, wealth management and/or insurance companies. Given the strong preference amongst the working class to take care of their financial matters in-between office hours, we believe this segment will continue to have a strong preference for ORCs. From an ORC perspective, this is an important category where competition from shopping malls, high streets or other retail formats is very limited.

Personal Care, Health & Fitness (PCHF) – salons, gymnasium / fitness centers, dieticians, health/fitness counselling centers, etc. – is a retail category that finds value in being located close to or within an office district. This category, like BFSI, benefits from changing health and lifestyle preferences of the swish working set which would prefer to enroll at a centre located in close proximity to their place, preferably within the same office complex. Though there could be competition from the modern residential complexes that offer all amenities under one roof, entry to such centres may be restricted to residents only. This category is only slowly catching up with limited well-known fitness chains and hence, while it features amongst the top-5 categories present across Indian tier-I ORCs, its share (5%) shows its infancy compared to the F&B and BFSI categories.

BANGALORE CITYSCAPE

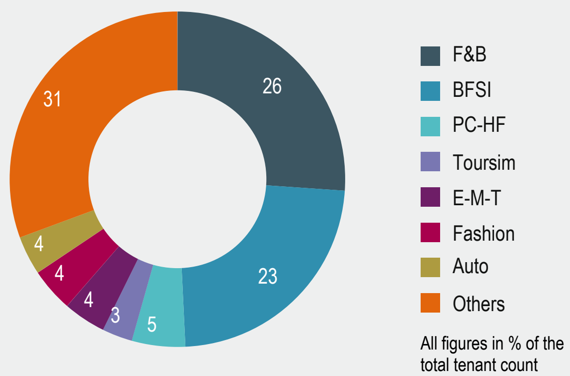
As far as the **Electronic-Mobile-Telecom (E-M-T)** category is concerned, in general, we have observed this category gradually getting wiped-off from physical retail formats and going online. However, we have seen telecom service companies and mobile stores making a presence in the ORCs, possibly with the intention of been closer to employees who are often keen to experiment with new tech and gadgets. Showcasing new product offerings through showrooms would, therefore, become important for E-M-T companies and we anticipate this category to evolve and capture a larger share within ORCs. Specialty retailers in this category may also be keen to explore smaller showrooms and experience centres to attract the new-age techies and those looking to upgrade and move up the value chain in terms of product quality.

Tourism, which includes major tour operators and/or visa processing agents/centres, is another category that finds the ORCs beneficial as many employees would prefer to plan their tour itinerary/explore options at an outlet close to their work place.

Fashion – apparel, accessories, bags, shoes, and watches – usually has a dominating presence across malls and high streets. It, however has limited presence in ORCs, possibly suggesting that shopping for fashion is considered a leisure activity not to be mixed with work. Such shopping is also done with family and through mutual decision-making, and hence may not find much success in such a format. However, this is a category that could carve out niche sub-set categories targeted at office-going customers.

Automobile showrooms have also garnered a minority share in ORCs for the same reason that possibly applies to E-M-T category. A showroom within ORCs will provide the automotive companies a venue to showcase new models / versions to potential buyers within the office district. Often, test drive of a new car model can be done during short office breaks. Retailers in this category will do well by customising their showrooms based on the office district branding as a financial hub, back-office dominated or primarily corporate offices and headquarters' setup.

INDIA'S TIER-I ORC TENANT MIX



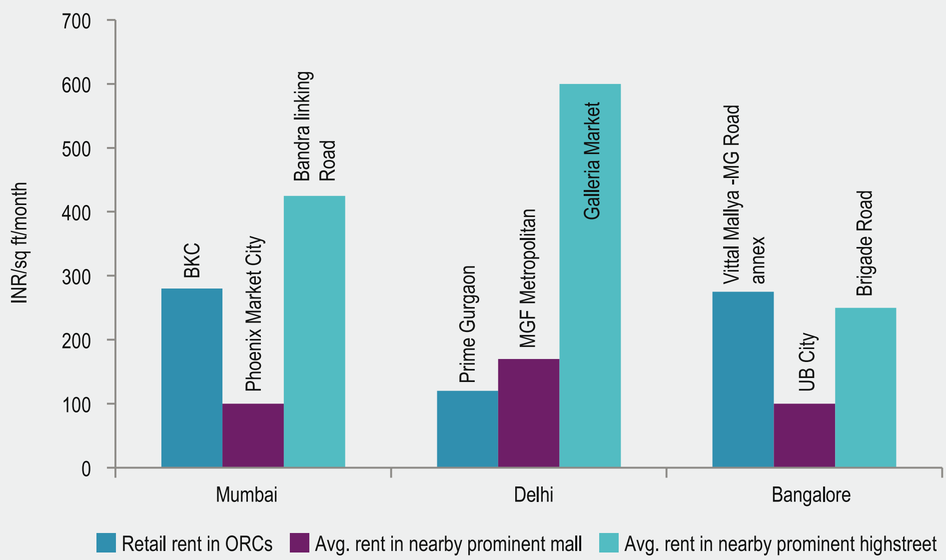
AS ORCs GAIN TRACTION, PREMIUMS COULD RISE

Rents in ORCs can go at a premium over rents applicable in office buildings in the range of 1.0X-3X depending upon the quality of building, scale of commercial activity, and locational benefits accrued through residential development in the neighbourhood. For instance, in Mumbai, while rents in ORCs in BKC command a higher rent in absolute terms, the premium that it commands over office rents in the same buildings is low (for better understanding, refer to Retail-Office rental premium chart in the next chapter titled ORC Snapshots. BKC does not have residential development in the neighbourhood and neither does it act as a transit route for commuters. As a result, footfalls could be limited during weekends and also during non-working hours. On the contrary, there is a high premium attached to ORC rents in Hiranandani Powai as the location offers the best of both worlds – vast office occupancy and a plush residential neighbourhood – ensuring constant footfalls at all times.

When compared to average mall rents applicable in neighbouring malls, rents of ORCs and high streets appear expensive. However, a like-to-like comparison should be the ground floor rents of malls versus rents applicable in ORCs or high streets. Typically, the former will be higher than the latter.

ORCs offer the same benefits as high streets would – strong visibility, easy entry-exit, limited brand cannibalisation, etc. Additionally, ORCs would typically have retail space available on a sale model as well, which is a rarity in Grade A malls. This opens up a whole new, high rental producing asset which would interest retail and institutional buyers. In fact, retail investors have already shown some interest towards such retail spaces in ORCs. These projects with a combination of office and support retail would also be attractive for institutional investors on account of higher rental income with correspondingly lesser risk associated with comparable retail developments that run a higher risk of new competition cutting into its performance. At optimum performance, the retail component in an ORC has the potential to emerge as a standalone retail mall in its own right, with its varied tenant mix, captive audience and walk-in customers adding value to the development while ensuring maximum capacity utilisation with diversified returns.

AVERAGE RENTAL IN ORCs VERSUS OTHER NEIGHBOURING RETAIL FORMATS



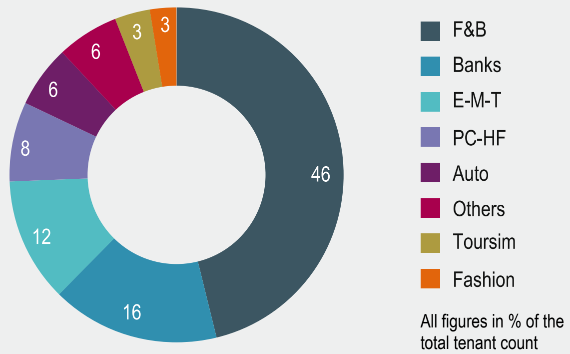
ORC snapshots

MUMBAI: NEW BUSINESS DISTRICTS DRIVE THE TREND

Mumbai is one of the prime tier-I office markets where Office-Retail Complexes (ORCs) are visible across modern office pockets of Bandra-Kurla Complex (BKC), Andheri East, Powai and Navi Mumbai. While the old CBD (Nariman Point) does have a few retail outlets to talk about, it may not feature high on the list of retailers as buildings are of old design and may not offer amenities such as ample parking space, large display area, etc. Also, Mumbai's CBD area is already proliferated by local F&B outlets and high streets, thereby making the ORC concept somewhat redundant. As a result, retail rents fetch a higher premium over office rents in modern office locations compared to the CBD. Hiranandani Powai ORC has the highest rental premium of over 3X, possibly on the back of its added benefit of being an elite neighbourhood residential development.

F&B is the most dominant category, as it accounts for 46% of the total retail categories' presence. Noticeably, this category has adapted to the culture that different ORCs have to offer. For instance, at BKC, expensive fine dining restaurants have made maximum inroads while at Andheri East, most F&B outlets cater to the moderately-priced fine dining categories. Banks (16%) and Electronics-Mobile-Telecom (12%) are the next big categories across Mumbai's ORCs.

OFFICE-RETAIL CATEGORIES PRESENT IN MMR



All figures in % of the total tenant count

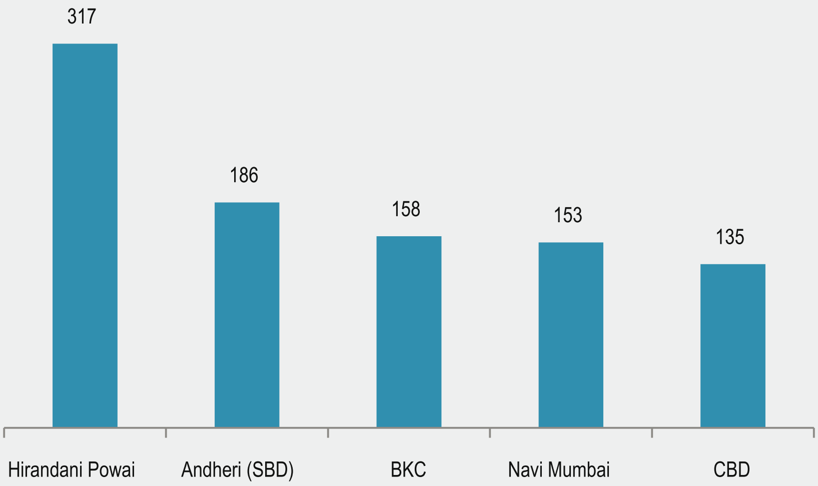
Mumbai Precincts	BKC, Andheri (SBD), Hiranandani Powai, Vashi, Nariman Point
BKC	Bandra-Kurla Complex, a primary office district in Bandra
Andheri (SBD)	Office buildings located on Andheri-Kurla road and few precincts around Andheri East
Hiranandani Powai	a prominent office location in the Eastern Suburbs
Vashi	Navi Mumbai's premier office location covering office buildings around Vashi railway station
Nariman Point	Mumbai's original CBD with old-styled office buildings; only few having retail space in it

Note: Few malls that recently commenced operations (in 4Q15) have been ignored as the vacancy there was naturally high, although showing clear signs of a swift fall.

MUMBAI CITYSCAPE

RETAIL TO OFFICE RENTAL PREMIUM IN ORCS OF MUMBAI MMR

(Index value of 100 would indicate office and retail rents are equal)



Office precincts / Retail categories	Banks	F&B	Tourism	Auto	Fashion	PC-HF	E-M-T	Others
Nariman Point (CBD)								
Bandra-Kurla Complex								
Andheri East (SBD)								
Hiranandani Powai								
Vashi								

Colour legend indicates:			
Category presence is	Dominant	Moderate	Low

F&B: Food & Beverages

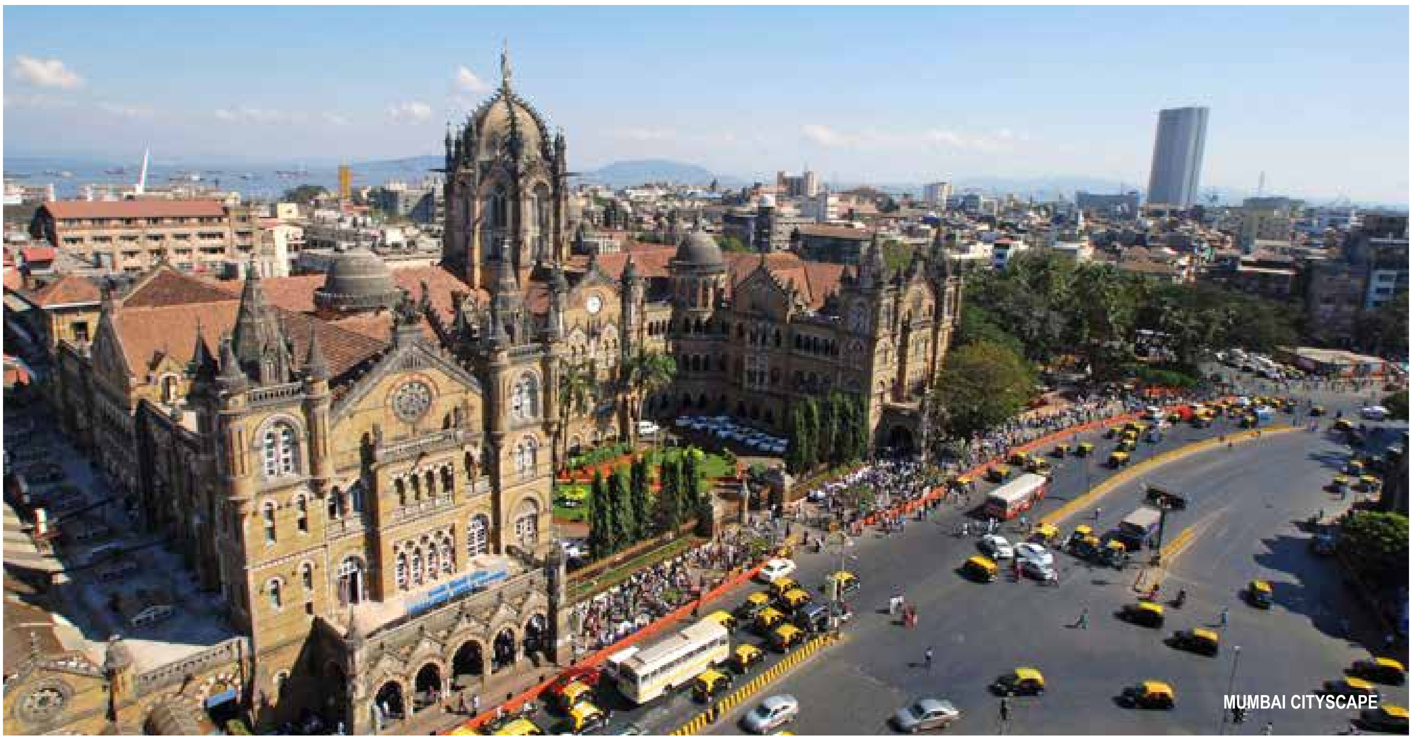
PC-HF: Personal Care-Health & Fitness

*** F&B:** Food & Beverages

^ PC-HF: Personal Care-Health & Fitness

 # E-M-T: Electronics-Mobile-Telecom services

~ Others: All other categories not covered elsewhere



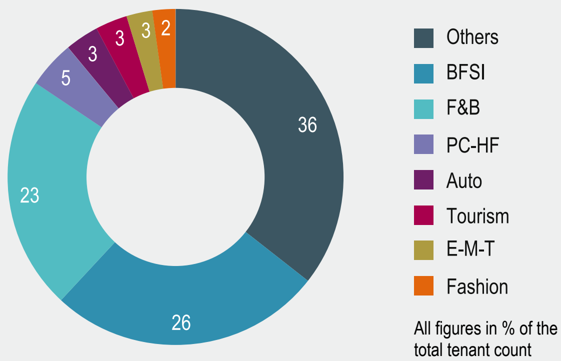
MUMBAI CITYSCAPE

DELHI-NCR: GURGAON STEALS THE SHOW, FOLLOWED BY NOIDA AND SBD

Delhi-NCR ends up throwing totally different results. While this geography outstrips all others in terms of size of the ORC retail format, the tenant mix is also quite at variance. The dominant category here comprises of Others, which is a heterogeneous mix of groceries, medical stores, property brokers, laundry, courier services, jewellery stores, printing services and stationary outlets. BFSI makes up for the next highest tenant presence, closely followed by F&B. The remaining categories remain peripheral players who take up space based on the potential value they can derive from their store locations. It is interesting to note that most of such formats and consequently stores are located in destinations which are well-established office corridors. Even in Gurgaon, the NH-8 and MG Road office corridors are significant contributors, while in the SBD, office corridors such as Jasola, Nehru Place and Saket are the major contributors.

Delhi NCR Precincts	CBD, Okhla-Jasola-Saket (SBD), Prime Gurgaon, Rest of Gurgaon, Noida
CBD	Delhi city's primary office district with old-styled office buildings; only few having retail space in it
SBD	precincts such as Jasola, Nehru Place, Saket, Okhla that have quite a few Office-Retail buildings
Prime Gurgaon	NCR's main office districts of MG Road, Prime NH-8 (incld. DLF Cybercity), and Golf Course Road
Rest of Gurgaon	includes precincts of Sohna Road, Golf Course Extn. road , Off-Prime NH-8 and Manesar
Noida	Sector18, Sector-62 and Noida Expressway

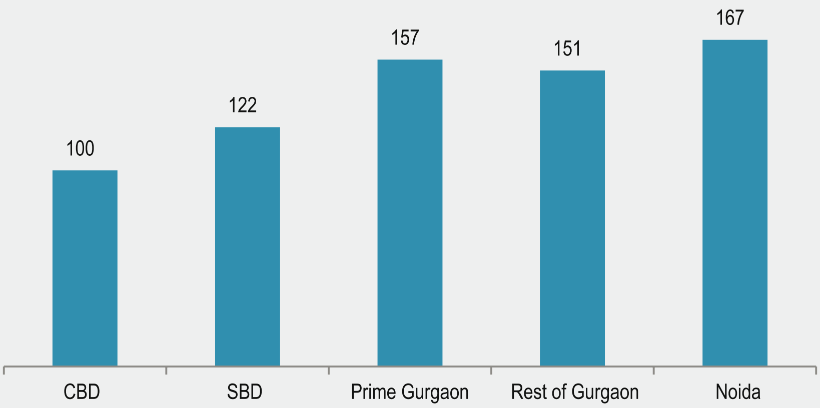
OFFICE-RETAIL CATEGORIES PRESENT IN DELHI-NCR

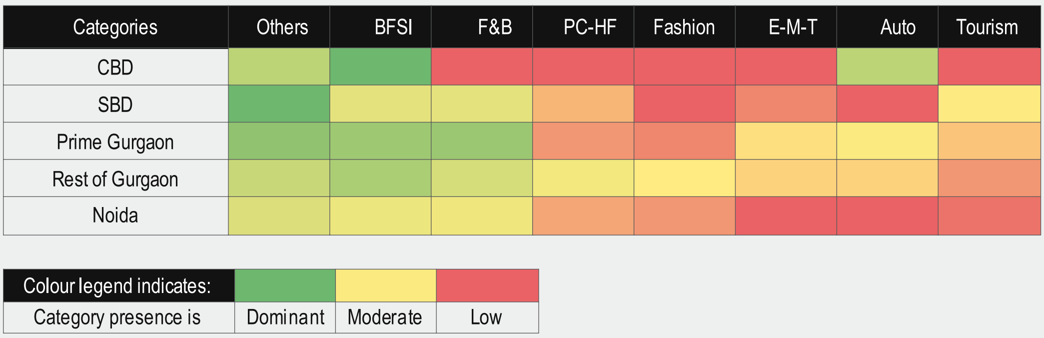


All figures in % of the total tenant count

RETAIL TO OFFICE RENTAL PREMIUM IN ORCs OF DELHI-NCR

(Index value of 100 indicates office and retail rents are same)





*** F&B:** Food & Beverages

^ PC-HF: Personal Care-Health & Fitness

 # E-M-T: Electronics-Mobile-Telecom services

~ Others: All other categories not covered elsewhere

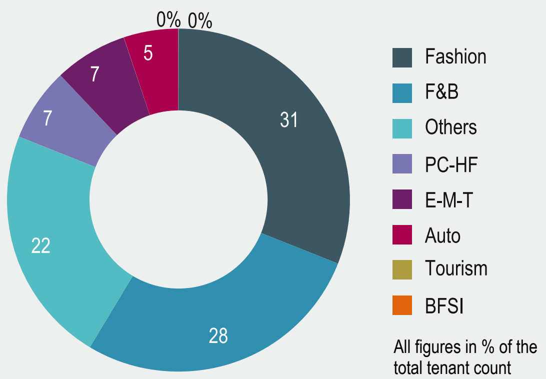
BANGALORE: THE ONLY CITY WHERE ORCs THRIVE IN THE CBD

The Bangalore office market is predominantly driven by IT/ITeS occupiers largely confined to huge campus developments. These IT developments only offer the opportunity for a captive audience for retailers, though such number may also be quite high as IT firms in Bangalore typically occupy entire towers/wings of larger office developments. The commercial developments in Bangalore are largely in the city centre and surrounding areas. The city centre is itself a prominent retail hub and in such a scenario taking-up space in commercial office buildings in the vicinity makes perfect business sense for retailers as they not only cater to the shoppers but also make huge rental savings by opting for ORC formats over the high streets.

The proximity to the city centre is reflective in the tenant mix in ORCs in Bangalore. While generally, Fashion does not figure prominently in the retailers who occupy such formats, in Bangalore, it is visible in the Fashion category dominating. ORCs in Bangalore are a part of the shopping centre of the city than creating a standalone office district. F&B follows a close second as this category has maximum traction with shoppers and office goers alike.

Bangalore Precincts	Bannerghatta road, MG road-Vittal Mallya road annex
Bannerghatta road	Jayadeva junction, Sarakki Industrial layout, J.P. Nagar (3rd phase), Bilekahalli, Arakere, Hulimavu, Kalena Agrahara, Gotthigere
Vittal Mallya-MG road annex	UB City, Vittal Mallya road, MG Road, Kasturba road, Lavella road

OFFICE-RETAIL CATEGORIES PRESENT IN BANGALORE



RETAIL TO OFFICE RENTAL PREMIUM IN ORCs OF BANGALORE

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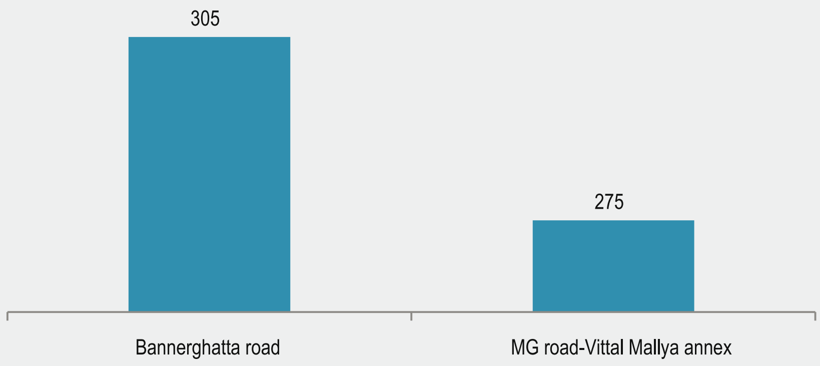

Office precincts / Retail categories	Fashion	F&B	Others	PC-HF	E-M-T	Auto	Tourism	Banks
Bannerghatta								
M.G. rd + Kasturba rd + Vittal Mallya rd + Lavella								

Colour legend indicates:			
Category presence is	Dominant	Moderate	Low

*** F&B:** Food & Beverages
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 # E-M-T: Electronics-Mobile-Telecom services
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BANGALORE CITYSCAPE

What retailers say?

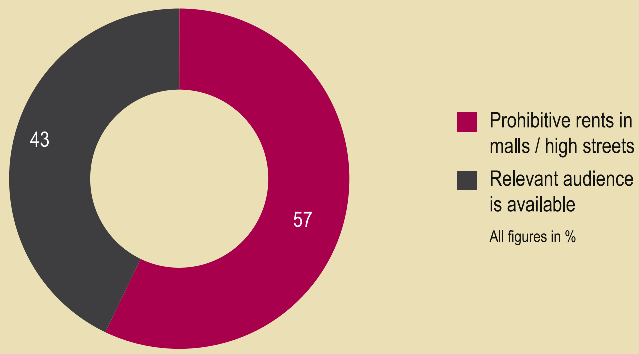
We went ahead and posed some questions to C-level / senior management executives of retailers across various categories to understand how the concept is viewed in light of its visible success across the big metros.

Key highlights: While the success of ORCs depends upon a number of factors, the key is the acceptance of the format by retailers. There is already wide acknowledgment that retailers look at the format keenly when the benefits of established business districts and key neighbourhood residential nodes are available together. The cost-benefits remain a high priority. Some concerns over business volumes during weekends being low in ORCs or the absence of neighbourhood residential were expressed.

The results, presented below, make for an interesting read.

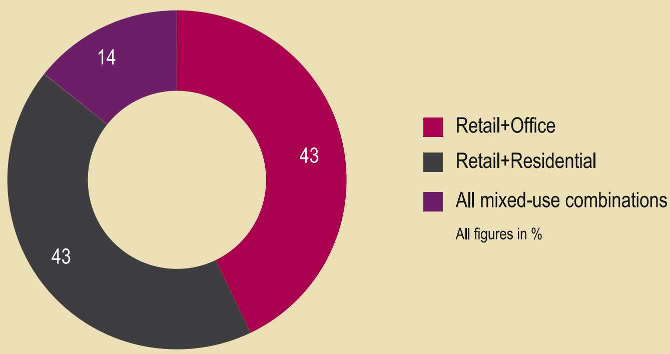
1. WHY DID YOU CHOOSE TO OPEN STORE IN AN OFFICE BUILDING / DISTRICT AS OPPOSED TO MALLS OR HIGH STREET?

Though a large number of our survey respondents perceive mall rents prohibitive compared to ORC rentals, our market data records differ to some extent for few markets (refer chart on page 10). Possibly, retailers may have compared ground floor rent in malls versus that in the ORCs. However, when it comes to the argument of relevant audience, we find our opinion in sync with that of retailers.



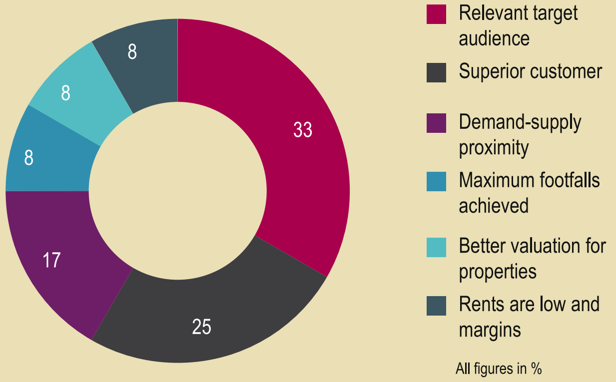
2. WHICH OF THE RETAIL MIXED-USE COMBINATION EXCITES YOU THE MOST?

Retailers are divided on their preferred choice of mixed-use property and gave an equal preference to ORCs and residential-retail mixed-use formats. We believe that both these mixed-use formats are separate in character and offer niche benefits.



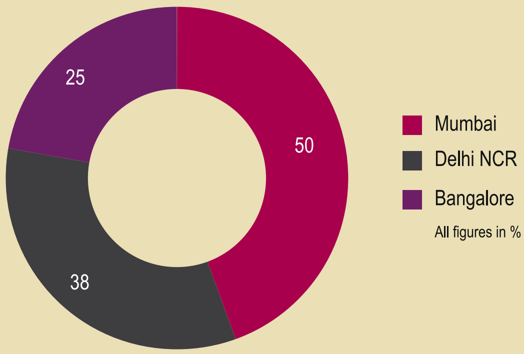
3. WHY DOES MIXED-USE RETAIL FORMAT EXCITE YOU?

For a large number of retailers, mixed-use retail offers the benefit of having a relevant audience. Some have even expressed the importance this format assigns on individual customer relationships. Some others feel that property valuations of mixed-use retail properties are better. Relatively lower rent is again an important factor highlighted by few.



4. NAME THE PREFERRED OFFICE MARKET AMONGST TIER-I CITIES WHERE YOU WOULD LIKE TO HAVE A RETAIL PRESENCE:

Amongst the three tier-I cities Mumbai ORCs seem to be enjoying relatively higher preference, followed by Delhi-NCR and Bangalore. We agree the proliferation of ORC concept in Mumbai and Delhi-NCR is higher than Bangalore at the moment.



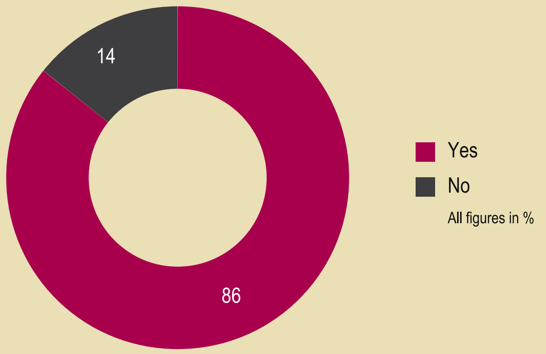
5. WHICH CATEGORIES DO YOU THINK ARE MOST SUITED IN AN OFFICE BUILDING / DISTRICT? RANK FOLLOWING CATEGORIES IN THE ORDER OF POTENTIAL SUCCESS YOU FORESEE (1 BEING THE HIGHEST AND 10 BEING THE LOWEST):

In the snapshots for three cities we profiled, we did see a higher participation of F&B, BFSI, E-M-T and PC-HF categories. But the survey result for this question has surprised us completely as it shows relatively low preference for QSRs and fine dining categories despite its high presence in actual. Overall, retailers have assigned high importance to utility categories of E-M-T, BFSI and PCHF, while fashion and leisure is relatively low in preference. The only possible explanation of this difference of opinion could be that retailers may have visualised F&B only in food courts.

Categories	Rank
E-M-T	1
BFSI	2
Personal Care-Health & Fitness	3
Apparel & Accessories	4
Fine dining/Pubs	5
QSR	6
Hypermarket / Groceries	7
Footwear	8
Entertainment / Amusement	9
Auto Showrooms	10

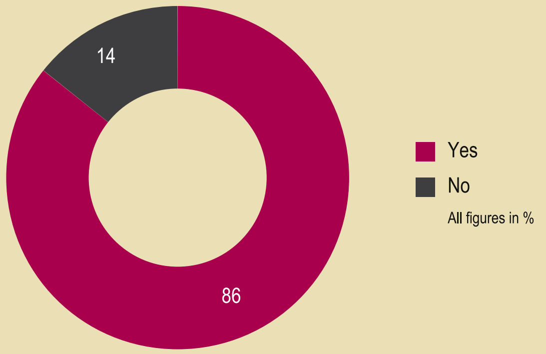
6. IS OFFICE BUILDING RENT MORE ATTRACTIVE FOR RETAILERS COMPARED TO RENTS APPLICABLE IN MALLS & HIGH STREETS?

Retailers, almost unanimously, agree that rents in the ORCs are competitive, possibly explaining why they tell us that valuations of such properties are higher.



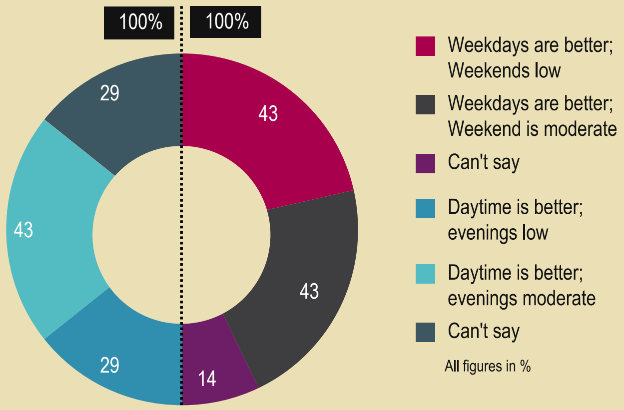
7. ARE YOU HAPPY WITH THE PERFORMANCE OF STORES THAT ARE LOCATED IN OFFICE BUILDINGS / DISTRICTS?

Retailers, almost unanimously, agree that performance of ORCs is relatively better, given that they have access to the most relevant target audience.



8. YOUR COMMENTS ON THE PERFORMANCE OF STORES IN OFFICE BUILDINGS / DISTRICTS DURING – WEEKENDS VS WEEKDAYS AND DAYTIME VERSUS EVENING TIME:

Weekends and daytime are the best performing day/time, as told to us by majority of retailers. However, some have expressed their satisfaction with weekdays and/or evening times as well. The latter group is of the opinion that with right offers and schemes, footfalls during non-peak hours can be improved.



Deciphering the Future

ORCs TO OFFER A DIVERSE RANGE OF CATCHMENT TO RETAILERS

Increasingly, mixed-used properties with retail as a support sector alongside commercial development seem to be an emerging trend in the real estate space. Several upcoming projects in the commercial space have been identified as having this model, and are likely to commence operations over the next five years. With a series of upcoming ORCs in the pipeline, it is imperative for retailers to realise the true potential of individual clusters in order to decide the apt location of their stores. Previous insights from the existing ORCs across the three major tier-I cities discussed and a few guiding principles could help in better understanding of the key determining factors.

The section on city ORC snapshots revealed that more premium rental can be achieved by landlords if ORC catchment is dotted with residential development in its neighbourhood. While that puts BKC on a back-foot compared with markets such as Hiranandani Powai and Andheri East in terms of retail-to-office rent premium, going by the residential under-construction projects we are sure to see this premium rising for BKC in future.

Just as in the case of malls where superior quality assets are able to draw high-end retailers, ORCs would also attract tenants depending on the quality of retail asset that they create. In the dominant F&B category for instance, SBD BKC has managed to attract high-end fine dining restaurants (average price of meals for two = INR 1800) as against the CBD that hosts moderately priced restaurants (INR 1170 meal for two). Similarly, if we look at the PC-HF category retailers across various markets, once again BKC has managed to attract high-end fitness centers (average monthly fees upwards of INR 6,000), which is priced at a big premium over those applicable in few other markets where this category has a strong presence. In Delhi-NCR and Bangalore too, a similar trend is witnessed with most of the premium F&B restaurants have occupied space in ORCs of Prime Gurgaon, Rest of Gurgaon, and Vittal Mallya-MG Road annex as opposed to other ORCs of the respective cities.

ORCs TO GAIN WITH A SHIFT TOWARDS 24X7 RETAIL

A multi-pronged approach is needed to ensure that retail sector growth keeps pace with the consumption potential while removing the bottlenecks that currently act as barriers for the sector to realise its full potential. Rental costs constitute a vital and significant portion of store running costs for a retailer. Simultaneously, the retailer also needs to be located in a premium mall development to ensure healthy business volumes. But such prime retail spaces do not come cheap. Prime ground floor spaces in superior retail projects are currently trading at substantive rental premiums. With restrictive state level policies hindering longer operating hours for retail establishments coupled with high occupancy costs and now online retail offering stiff competition, retailers need a definitive shift in policy-making to turn into a profitable venture. Various states and even the central government have started making inroads into archaic labour laws and revisiting their shop and establishment acts to provide a more holistic working environment to the retail sector. From mulling over 24X7 operations for retail establishments to creating dedicated retail and entertainment zones to serious progress being made on Transit Oriented Development model, there is increased awareness towards providing an enabling environment to retail. The concept of 'walk to work' is now evolving to 'walk to shop and work', with plans to utilise transit corridors for maximising land usage for integrated commercial and retail developments.

Maharashtra has already introduced a Draft Retail Policy which envisages creating dedicated, master-planned zones catering to retail and entertainment with development norms amended to suit the requirement of both big and small retailers. The policy is planned on the lines of such zones already created in Delhi. New and alternate business districts are being planned as mixed-use ones, thereby providing dedicated space for the retail sector.

ORCs are the first step towards retailers exploiting the twin advantages of location and quality space. ORCs will create the integrated, mixed-use business districts of tomorrow.

CONCLUSION

The concept of ORCs emerged from the need to move ahead from vanilla office buildings to those which offered retail services to support the commercial offices running in the development. The product lifecycle has now reached from a prototype stage to a full-blown version with growing acceptance across the big cities.

Organised retail cannot be constrained to the confines of retail mall developments. With quality malls running at near-capacity, retailers need to look beyond the conventional high streets, which may not offer the same flexibility and scalability as new-age buildings. ORCs are extremely effective at bridging this gap while offering the optimum business opportunity through lower costs and a varied customer base. In fact, ORCs are much more flexible development formats where retailers can look to create bespoke retail formats based on the primary catchment profile.

The most common retail formats in ORCs are the food & beverage segments and banking & financial services. This stems from the fact that eating out and managing personal finances while remaining key concerns of the current working demographic are increasingly being viewed as activities to be managed during breaks from working hours. While other categories are still finding their feet, fitness, fashion, high-end, electronics & gadgets and automobiles should find this format much to their liking through customised offerings based on the profile of the business district and the median income levels prevailing in that location.

While retailers have identified the ORC format as a good alternative, they are more than ever, willing to look at this format with much more interest as in the absence of quality retail space. ORCs offer a higher bang for their buck with comparatively lower rents despite being offered prime ground floor spaces in comparison to premium malls with weekday footfalls and viewership guaranteed to be higher than comparable malls. With the added benefit of nearby residential nodes, such ORCs at their optimum have the potential to operate as standalone retail malls in respect of the lower floors and generate similar footfalls and business incomes for retailers.

This format can offer institutional investors a potentially higher revenue across a diversified tenant base while providing them the key differentiator which may be the ultimate weapon in commercial occupier retention and future rental upside potential.

As retail industry evolves, it is high time that the ORC concept finds greater resonance among developers and retailers. A word of caution, though; quality, location and planning remain key to making this a win-win for developers, retailers and investors.

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