Dr Sivakumar **evaluates the advancements in the Indian market with other developed markets and draws out the space valuation perspective from a mall developer's point of view**

Optimising mall space

India has seen a rise in the number of malls in the last few years. Today India has 37 malls in Mumbai, 10 in Hyderabad, 15 in Bangalore. Approximately 220 malls in the whole of India by end 2005 is what is the estimate of various agencies involved in assessing the future of commercial property development in India. The real estate sector is booming thanks to the low interest regime for home loans. The other factor that is providing a fillip to the development of real estate is the boom in commercial property development, especially the retail property sector. It has been reported across the media that India has been witnessing tremendous investments in retail property development in anticipation of a greater shift towards organised retailing. Moreover, with the convergence of the retailing, entertainment and the tourism industries, retail property in India has taken to mega mall development to suit the needs of all the three sectors in a single location. With this kind of development it would be interesting to look at the economics of a mall development and the space management in particular.

Throughout the past decade, malls appeared on the retailing scene as the locus of retailing activity in major Indian cities in the central business district, which was populated by well-known department stores. But as the suburban population grew, many local shopping areas in suburbs transformed into regional shopping destinations. In a few cities, specialised developers purchased large blocks of the central city land and then offered it on a lease basis to department stores and other stores at differential rents. The displacement of the central business districts in major Indian cities by the suburban mall phenomenon was clearly hastened by the increase in automobile ownership, an enhanced urban road network, and growing suburban markets.

Malls represent a set of co-located retail outlets in a large area with lots of amenities. In the retail sector, mall development must be a planned, as this would help in attracting the right tenant mix. A typical mall has one or more anchor store and a diversity of smaller stores. The development of a mall should also be planned in anticipation of the increased footfalls. Understanding of the retail environment becomes crucial for mall developers as well as for the potential tenants while investing in malls.

Benefits of a mall

The success of a mall depends, in part, on the presence of other stores within the mall, and especially on the presence of the mall's anchor stores. The agglomeration of these stores helps consumers to reduce their search costs. Most retailers across the world claim that consumers are attracted to malls because of the presence of well-known anchor stores. Thus, by generating mall traffic, anchors create benefits by increasing sales and also help in the reduction of promotions and other overhead costs of a smaller store. The benefits for the mall surely lies in the large number of footfalls resulting in more sales, while for consumers it is the holistic experience of shopping. While the disadvantage is that each mall store is subjected to more direct competition from competing stores within the mall. In general, larger stores have more established reputations. This is why, they can bank on their standing in the market and eventually create more benefits in the long term. This factor is significant in terms of what becomes the tenant mix of the store.

3(5) Dec 2004. pp 43-44

-44

MALL OF AMERICA

Mall of America is the second largest mall in the world. It has a total floor area of 4.2 million square feet occupied by 4 anchor department stores and junior department stores

Types of tenants

Each tenant in a mall can be classified into one of the three types on the basis of their reputation or by the brand name of the store:

- Member of a national chain
- Member of a local chain or
- Independent store

A national chain is a retail business that operates in at least four metropolitan areas that are located in three or more states. While, an independent retail store is a business operating in one or two outlets in only one metropolitan area. And a local chain store works on a different format from that of a national or independent retail store. These stores are more cusotmised in terms of their products offerings. This classification makes sense in terms of the propensity to pay for the mall space.

Mall development must be a planned action, as this would attract the right tenant mix. The plan should be in anticipation of the increased footfalls

The anchor

It has been reported that in US, the anchors' rent per square foot is at least 72 per cent lower than what a developer would normally charge a hypothetical store with a similar level of sales in a mall. One of the options available to a mall developer is to fill the mall with a speciality store that generates more sales per square foot and pay more rent per square foot, than traditional department stores.

First mover

A developer's first step in creating a new mall is the signing of the mall anchors on a long-term contracts basis (typically with a duration of 25 or more years.). The advantages of signing an anchor on a contract basis are - developers obtain lower-cost financing, and are able to charge higher rents from other mall tenants. This is due to the fact that mall tenants are aware that their sales per square foot depends on the drawing power of the anchors.

Contracts

In US, mall lease contracts have two components, a base (fixed) monthly rent and an overage component that equals a sharing fraction time, which is the difference between actual store sales and a pre-specified threshold value for sales. While in the Indian context, the information on sales of individual stores in the mall including the anchor is not readily available to the mall developers. In view of this situation, there is hardly a possibility of a change in the lease terms between anchors and other mall tenants. Financial and operational size and the presence of the prospective anchor or tenant could make a difference in terms of the rents charged by the mall developer.

On an average, anchor stores occupy over 58 per cent of the total leaseable space in US malls and yet the developer collects a pay of only 10 per cent of the total rent from them. The sheer size of this subsidy can only be explained by the tremendous draw/footfalls created by anchor stores. In the Indian scenario, there is a need to carefully value the presence of an anchor store in a mall. Therefore, mall developers need to carefully price the space offered to the anchor stores. This is more so in a situation where malls, are at times, developed without a clear anchor/ anchor characteristics in mind.

The success of the entire mall depends on how the developer maintains the mall over time, in terms of remodeling and adding more facilities every few years, attracting the best stores, updating the mix of stores, keeping the mall competitive with other malls in the area, and so on. As these actions are difficult and unpredictable, fixed rental contracts cannot be used to align incentives. Therefore, in India it is a matter of time when fixed rental contracts would give way to variable rate rental contracts depending on the sales of the tenants.

Conclusion

A mall developer is in an unenviable position while holding the supply of commercial retail property in any developing city. Price discrimination is the key to dealing with this situation and it can be across several dimensions as listed above. The better the mall developer understands it; higher will be the efficacy of space management in the mall.

The author is Faculty Member (Marketing) at the T A Pai Management Institute, Manipal. He may be contacted at siva@mail.tapmi.org