

retail feasibility is critical: 2nd icsc india conference



The second ICSC India conference was organised on May 13 & 14 at The Renaissance, Mumbai and Hotel Le Meridien, New Delhi respectively. The theme and purpose of the programme was to highlight *"The Role of Feasibility Studies in India's Emerging Shopping Center Industry"*. Over 150 brands, retailers, real estate firms, mall and shopping centre developers attended the highly interactive sessions.

There has been a plenty of concern over the apparent over-supply and impending failure of several shopping centre projects coming up across India. Against this background, the 2nd ICSC India Conference underscored the critical importance of Feasibility Analysis before launching a large-scale retail project.

In the context of development of shopping centres in India which can result in business losses and closing down of many of these centres, a first-ever two-day interaction of select mall developers, investors, town planners and retailers with Hermann J Kircher, President, Kircher Research Associates Ltd, and Martin Anstey, Senior Project Manager, Thomas Consultants, Inc. on "Maximizing Performance" by improved decision-making, avoiding costly mistakes and to succeed where many fail was held at The Renaissance, Mumbai and at Le Meridien, New Delhi on May 13 and 14 respectively. The conferences were moderated by Pranay Sinha, CEO, Select Infrastructure Ltd.

The meet was vital as over 600 malls are being planned in India and among the existing ones many are bleeding, and many retailers are already shutting shops. In time in India to support its retail growth, the New York based International Council of Shopping Centers (ICSC), the global non-profit body guiding the retail & shopping center development worldwide, brought two of the world's top shopping centre design consultants to address the ICSC seminars.

"As India rushes into middle class consumerism, shopping centres have grown at an exponential pace; a pace unmatched anywhere at any time in history. Yet, not all centres are created equal and there is a high probability that many of India's new centres may not survive. The long-term viability of any retail development requires a comprehensive and painstaking study of various influencers, including factoring in the effects of future competition. With a well-researched, statistical analysis of project feasibility, developers can avoid expensive errors and develop a project that is closer to being a viable

venture,” said Amitabh Taneja, director, ICSC India, throwing open the discussions.

Said Hermann J. Kircher, “Project feasibility is critical – it factors in real estate costs fluctuations, tenant mixes, catchments and shopping preferences, consumer spend patterns, for the long term. The current mindset of mall developers in India is “Aim and Fire”, meaning just jump into shopping centre creation without really understanding the viability of the project.”

“However, a Feasibility Study should not be taken as the Law, it’s only a tool,” he added.

Addressing the mall developers and retailers at the conference, Martin Anstey said, “Shopping centre development is a risky business and with the dynamics of retail changing as rapidly as in India, it is absolutely imperative to build the right property in terms of size, location, composition and positioning. Feasibility studies enable identifying these parameters.”

Topics Discussed in Detail

- The feasibility study defined – why is it essential? When should it be done?
- The Prime Retail Types:

Large Scale Retailers, Specialty Retailers, Food. The pursuit of Market Dominance and the Globalisation of the Shopping Centre Concept.

- Examples of market feasibility study approaches

Studies in Mature Markets like North America and in rapidly growing (emerging) markets like India and China.

- Components of the a market feasibility study

Purpose, Site & Access, Planning Context, Trade Area, Demographics, Incomes, Retail Expenditure , Potential, Competitive Structure, Major Tenant Availability/Tenant Mix, Warranted Space, Marketing Plan, Timing/Phasing

- Architecture, engineering and financial feasibility:

Cost of Site, Predevelopment Expenses, Basic Construction Cost, Finishing: Shell & Allowance vs. Turn Key, Leasing Costs, Common Area Expenses (CAM/HVAC), Lease Structure, Rent Expectations: Base Rent/Percentage Rent, Sales of Individual Stores/Condominium as an Alternative, Financing



- Shopping centre operations and management
- Sources of data for the preparation of a market feasibility study

While Kircher focussed on the theoretical aspect and application of a feasibility study, Anstey spoke of more practical aspects, like application of feasibility studies in countries like China.

Kircher presented the ICSC definitions of Feasibility Study. He said, according to International Center of Shopping Centers, a Feasibility Study should evaluate the potential outcome of a development programme by collecting all relevant facts, incorporating experience and allowing one to test alternatives.

“Feasibility studies help in contrasting enthusiasm with reality; they quantify ideas and delineate risks by minimising uncertainty. They help to secure planning permission, major tenants and financing of a project. Further, they enable prioritisation of investments, and comparative study between alternative development options,” he added.

“A feasibility study should be started immediately after a project has been identified – much before the investment has taken place. The two other factors that have to be considered are with regard to timing – a feasibility study should be conducted as and when required by planning department, financial partner etc. It can be conducted when development options are being compared,” he advised.



Feasibility studies help in contrasting enthusiasm with reality; they quantify ideas and delineate risks by minimising uncertainty. They help to secure planning permission, major tenants and financing of a project. Further, they enable prioritisation of investments, and comparative study between alternative development options.

– Hermann J. Kircher,
President,
Kircher Research
Associates Ltd





▶▶▶

The Positioning Study Outline for a shopping centre includes studies like Customer survey, Competitive Assessment, Demographic Research, Income and Retail & Expenditure Analysis, In-Home and Consumer Expenditure Survey, Market Potential Analysis, Tenant Specific Historic Sales analysis, Tenant Mix Review, Strategic Consideration, etc.

While presenting his findings on 'Assessing Market Feasibility and Financial Feasibility', he said that a feasibility study should be preceded by a preliminary architectural/ engineering concept. And may be accompanied by analysis like traffic, planning, ecological, archeological analysis; and at times impact assessments, too.

Anstey's presentation included topics like 'Global Nature of Retailing', etc. He suggested that for conducting a feasibility study in an emerging market, a "Global to Local" model should be applied wherein besides global factors, other issues like emerging markets, national, and local market conditions should also be considered. According to him, emerging market factors would include elements like:

- Macro market description (includes location, population, and economic and other policies).
- Major Players and significant development areas in the market.
- Policies - including status of economic liberalisation, FDI restrictions etc. For instance, China is 'open' in comparison to India.

The presentation was taken further by Kircher, who further elaborated on the major types of shopping centres.

"A shopping centre could be a strip centre, neighbourhood centre, community centre, an enclosed mall, a regional centre, a value centre, a festival market place, a lifestyle centre or a mixed-use centre," he said.

Kircher explained a highly effective model of mall design – the "Dumbbell" – an enclosed

shopping centre wherein two major tenants are located at the two ends of the property, so that the customer travels from one end to another in order to buy things, thereby covering all stores located in the connecting corridor.

He went on to explain the Positioning Study Outline for a shopping centre, which he said includes studies like Customer survey, Competitive Assessment, Demographic Research, Income and Retail & Expenditure Analysis, In-Home and Consumer Expenditure Survey, Market Potential Analysis, Tenant Specific Historic Sales analysis, Tenant Mix Review, Strategic Consideration, etc.

"A Customer Survey would find out what customers have purchased from the shopping centre, their likes and dislikes, etc. A Demographic Research would find out on a daily basis, the number of people in the families of customers, and demographic attributes."

While explaining the Tenant Specific Historic Sales analysis, he deciphered GLA (Gross Leasable Area).

"One should not mistake GLA with Net Selling Area /Carpet area – they mean different things. GLA is the area on which tenant pays rent. Total rent can be calculated as sum total of Gross Rent and Percentage Rent," he elaborated.

Anstey took the next session, wherein he presented a Case Study of Chaoyang Park Project in Beijing. During this session, he discussed about the objectives of the feasibility study of the Chaoyang Park Project, and its findings.

Anstey then explained the implication of feasibility study in the Indian context.

"While conducting the feasibility study, information about competition should be collected by visiting trade areas, offices and gathering information like prevailing lease rates, vacancy, documentation required, location of retailers etc. This would help in developing an understanding about the same along with providing information on both traditional and modern formats," he explained.

"One should find out the formats that would be futuristic and viable if not today, then definitely in the future. Based on this, an Optimal project size and retail mix should be developed along with optimal strategies," he added.

Anstey continued that based on these retail mixes, strategies and competition scenario, an



Tenant mix for a shopping centre would depend upon factors like market positioning, its retail mix, merchandising depth, anchors, and international/ national/ local mix. A 50:50 mix of Chain Stores and Local operators is recommended.

– Martin Anstey,
Senior Project
Manager,
Thomas
Consultants, Inc.



optimal feasible design layout should be identified.

The next session was taken by Kircher on the Objectives of a Feasibility Study. He said that the primary objective of any feasibility study is to create an understanding of the market and its trends; determine market opportunity, assessment of risk and creating a document for multiple interests like investors, developers, etc.

Kircher also discussed Demographic Analysis and Income Analysis. Demographic analysis for a shopping centre includes analysis of population in terms of historic, current and future changes, he said.

“Expenditure levels are directly related to income levels. Therefore Income Analysis is equally significant. For this, one needs to find out Personal Per capita Income, Gross Income, Disposable Income, Discretionary Income, Household Income etc. Gross Income less taxes is Disposable Income and Income left after expenses like school fees etc, is Discretionary Income,” he explained.

He advised that a complete review of competitive structure is very significant, wherein every store would be measured on the basis of its big name, type, and quality, and then categorised as A, B, or C. He also said that the Locational strategy of potential major tenants too plays a vital role. At times retailers would not be interested in opening a store in a shopping centre, because it has a store in another centre in the neighbourhood.

Anstey took over the next session wherein he discussed various analytical approaches to determine optimal project size, mix and phasing.

According to him, for Grocery, the expenditure required is too high, whereas the opportunity is typically low due to presence of small nearby stores. On the other hand, Personal Care goods have high expenditure level and high opportunity.

He also explained the Capture Rate Analysis, which is based on best of what works in the market. He said a combination of both approaches should be used, and depending upon the category, models like Retail Gravity Model should applied.

“Tenant mix for a shopping centre would depend upon factors like Market Positioning of a Centre, its retail mix, Merchandising Depth, Anchors, and International/ National/ Local Mix. Only those anchors should be brought in who fit the profile of the shopping centre. A 50:50 mix of Chain Stores and Local operators is recommended,” he said.

He further discussed the role of feasibility studies in the Design Process. A feasibility study helps in deciding the Tenant-to-Tenant Layout Plan, where the supporting elements would be, Horizontal Configuration, Vertical Configuration, Placemaking, and creating a Pleasant Public Space Environment.

“As a retailer moves upwards physically, it loses sales. In India, it is at the rate of about 30 per cent,” he said.

While explaining Horizontal and Vertical Configurations, he said consumers usually travel long distances to buy footwear. So a developer should maximise the amount of distance traveled, so that more number of stores can be located in between two footwear stores. The same applies to anchor shops in shopping centres, he added.

The final session by Kircher, discussed the Architecture and Engineering aspect of a project. Herein, issues like placement of entrance, average tenant size/ space, and parking in a shopping centre were discussed. Issues on Financial aspects were discussed, too.

As is evident, the two conferences contained a wealth of information and knowledge for mall developers, planners and retail investors, through the interactive sessions where the presenters presented and discussed case studies with the audience. Importantly, they also assisted in demystifying critical do's and don'ts for India's burgeoning shopping centre industry. 