

# REBOUND REVENGE & RE-INVENT

A NEW JOURNEY FOR  
RETAIL REALTY

SEP 2022





# TABLE OF CONTENTS

1

## Indian retail real estate: Rebound

- 1.1 Higher Footfalls, Sales, and Occupancy recorded across all formats
- 1.2 Ease of access at times of restricted mobility benefited highstreets
- 1.3 Consumers' strong urge for retail therapy post-Covid – **Revenge Shopping**
- 1.4 Recovery visible across multiple retailing segments amongst listed retailers
- 1.5 Recovery in revenues at pre-covid levels across a portfolio of listed mall developer

2

## Retail Realty, on a Journey of Transformation – Re-invent

3

## Physical Retail: Reinforcing its Relevance in the E-commerce Era

- 3.1 “Phygital Retail”: combining the strengths of physical & digital retail formats

4

## Indian retail real estate is under-penetrated; has vast room for growth

## EXECUTIVE SUMMARY

Counted amongst the core real estate asset classes in India, retail sector has just sailed past the harshest business climate it has ever faced. Never before has there been times of high uncertainty like the one it experienced during Covid pandemic. Retailers, developers and investors have been ultra-cautious of delving into this segment, owing to two key factors – 1) the e-commerce onslaught, which was happening at a gradual pace for over a decade, accelerated further to gain a significant market share during pandemic, and 2) a higher digital adoption rate amongst Indian consumers led to more and more people getting accustomed to the online way of shopping & entertainment.

Immediately post lockdowns, however, as mobility restrictions began to ease, consumers returned to malls in great numbers. Both, revenues and footfalls of mall developers as well as retailers have largely recovered to pre-pandemic levels, and the market has seen an exuberance. The great **Re-bounce** story that is playing out currently within retail real estate is a testimony of its fundamental strengths. **Revenge** shopping started to gather steam as pandemic fears subsided, with consumers indulging themselves in shopping for precious items or luxury goods. This possibly made the retailing industry realise that shopping cannot be merely rendered as an outdoor activity by consumers, but therapy to soothe their minds.

Pro-active mall managers have realised the significance of tapping on this new-found opportunity called retail therapy. They will now be more focused than ever to raise the bar and embed experiential retailing quotient into their malls. Retailers, as well as mall developers, are more open to **Re-inventing** through greater adoption of digital & analytics for better understanding of consumption patterns, greater tech integration for raising convenience for patrons, and also making the experience of shopping more fun with innovative zoning strategies.

As malls chart new & innovative growth strategies for themselves, the future of retail real estate in India is an assuring one given the vast untapped potential that is available. India is, currently, counted among the highly under-penetrated countries for retail, as measured through the Retail Space Per Capita yardstick. While advanced countries such as the USA, and Europe enjoy RSPC in double-digits, countries like China, Indonesia and Vietnam have an RSPC that is 3-5 times higher than India. Being the world's fastest-growing economy from here on, incomes are likely to rise fast, thereby compelling developers to create more experience-oriented retail spaces.

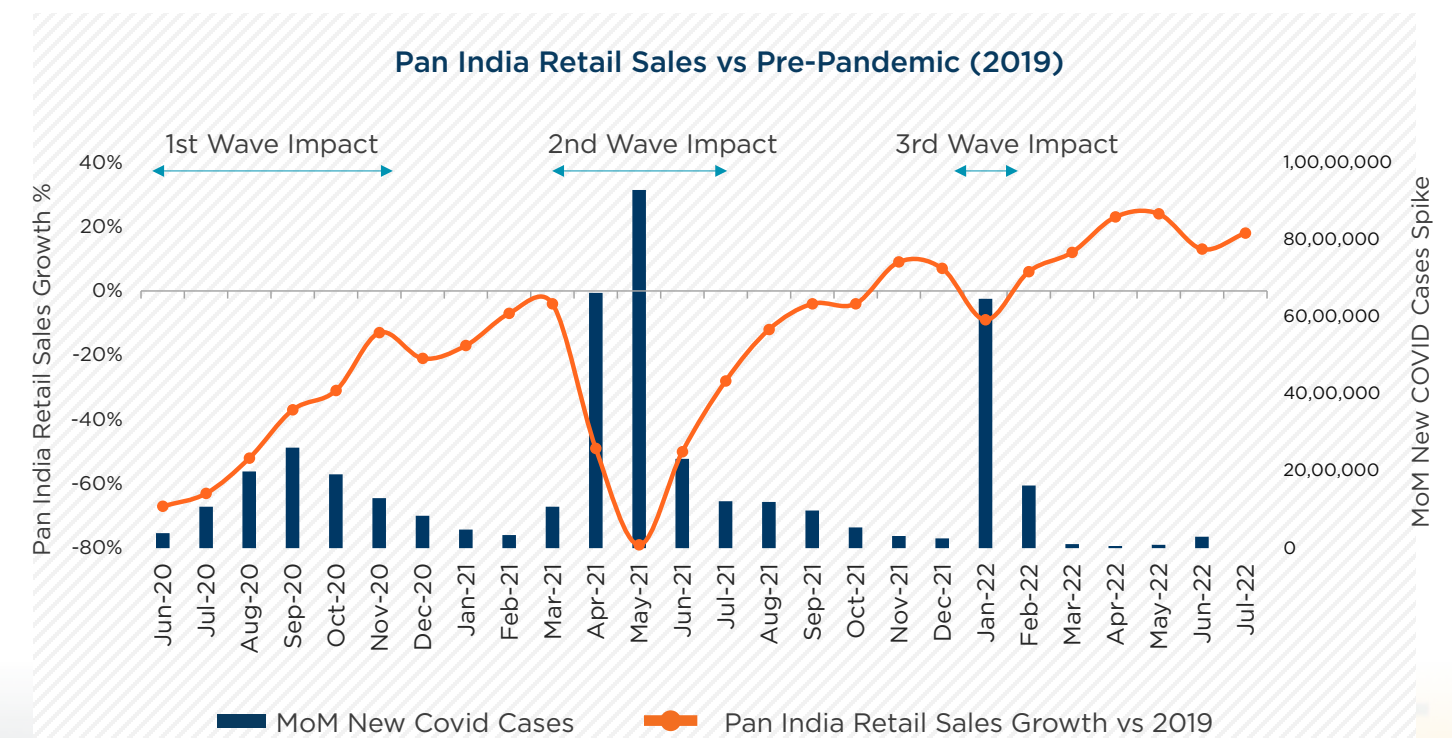


1

# INDIAN RETAIL REAL ESTATE: REBOUND

## 1.1 Higher Footfalls, Sales, and Occupancy recorded across all formats

Retail sector has been through its darkest phase owing to forced lockdowns that prevailed for the longest period ever until Covid cases came down to manageable levels. Worst affected was the organised physical retail asset class, being host to the highest density of people inside a confined building and, therefore, subject to strictest of lockdown restrictions. Consequently, while shopping centers or malls suffered setback in terms of footfalls and revenues, gains were made by prominent highstreets as well as online commerce platforms. According to Redseer, the gross merchandise value (GMV) in e-tailing increased from USD27.1 bn in CY2019 to USD38 bn in CY2020 (40% growth y-o-y). In 2021, this e-tailing GMV reached \$53 billion, clearly highlighting the faster momentum in online shopping during the pandemic times. Also, according to RAI data, which studied business impact for 100 retailers in 2020, between June 15th to 30th malls witnessed larger drop in business compared to highstreets<sup>1</sup>.



Note: MoM: Month on month  
Source : RAI Data & prsIndia.org



Nevertheless, the bounce back of physical retail in organised malls was imminent as retail experts highlight strong reasons as follows – 1) malls were already on their journey to transform themselves into vast experience & entertainment centers, 2) India continues to remain an under-penetrated market in terms of organised physical retail, and 3) with subsequent covid waves, it was becoming clear that retail business was less affected due to rising Covid cases but more affected due to lockdowns. The chart above clearly suggests that retail sales were largely affected in months when lockdown / mobility restrictions were imposed.

After the initial rounds of lockdowns announced by the central or state governments to contain the spread of virus, mass lockdowns were sparingly used. Many state governments preferred not to impose lockdowns even during the third wave in Q1 2022. Maharashtra state government-imposed restrictions rather than mass lockdown; Telangana State government opposed the idea of lockdowns during the third wave as it had also impacted the state government's revenue during Q2 2021<sup>2</sup>; North-eastern states of Assam & Meghalaya ruled out lockdowns during the 3rd wave. States such as Karnataka, Goa and Jharkhand imposed night curfews but refused to impose mass lockdowns during Omicron wave. Therefore, despite a third wave during Q1-2022, malls witnessed merely one month of weak sales in January (again attributable to mobility restrictions). Reputed mall operators, as well as retailers, have reported their consumption or sales across multiple categories surpassing pre-covid levels<sup>3</sup>.

### India's retail realty rebound story across top cities



- By end of May-22, Nexus Shantiniketan Mall had seen 200% recovery in sales, while Nexus mall in Koramangala was at 170% compared to pre-covid levels.
- Phoenix Market City consumption levels for the period March-May 2022 surpassed pre-covid levels of 2019 for the same months, and the mall operator projects strong consumption trend to continue for the rest of 2022.



- In March & April 2022, PMC & Palladium malls saw consumption levels surpass that seen during same period in 2019
- By end of June 2022, malls such as VR Chennai and Express Avenue recorded over 90% of pre-covid footfalls.



- By end of March 2022, DLF reported that footfalls have been steadily touching pre-pandemic levels with occupancy levels hovering around 97% across its retail portfolio. The retail business exhibited strong recovery during the last fiscal with 67% y-o-y rental growth. In June, footfalls were over 90% of pre-covid levels, as per the company.

- As per Azure Hospitality (operators of popular restaurant chains), as of Jun-22, several restaurants in Delhi NCR achieved 100% of pre-covid level sales as corporate workforce is back in the city. Restaurants near office spaces recorded quick jump in revenues. For June-22 quarter, a prominent restaurant chain Café Delhi Heights, highlighted that corporate workforce was reason for additional 17% - 18% revenue in Gurgaon and Noida<sup>4</sup>.



- According to Infiniti mall, by end of Mar-22, footfalls recovered to nearly 85% of pre-covid levels and sales were already at pre-covid levels<sup>5</sup>. The mall operator estimated healthy growth of around 10%-12% every quarter in FY23.
- Seawoods Grand Central (SGC) saw sustained recovery in Q1-22, and June-22 recorded 100% recovery in terms of footfalls compared to pre-covid levels.
- As of Mar-22 quarter, Phoenix Market City recovered 91% of its rental business and 81% of its consumption levels compared to pre-covid (Mar-19 quarter). More recently, in March & April of 2022, consumption levels had surpassed pre-covid levels by 112% and 101%, respectively.



- By end of 2021, with merely 60% recovery in footfall, Nexus mall, recorded a 100% recovery in its business, equalling pre-covid levels. In its June-2022 release, the mall stated that there is a 100% recovery in footfalls too.
- As of May 2022, InOrbit mall Hyderabad saw a recovery in footfalls of up to 80%.
- Sarath City Capital mall, which used to receive footfalls of around 1.0-1.5 million per month during pre-covid times, had recorded over 2.0 million per month shoppers entering the mall during the last two quarters of FY 2022.



- Amanora mall has recorded three months (up to June-22) sales and footfalls surpassing pre-covid levels by 25%-30%.
- Nexus Westend mall saw healthy recovery in footfalls since Q1-2022. Further, June-22 recorded 100% footfalls compared to pre-covid levels.
- For the June-22 quarter, Phoenix Market City recorded highest rental income in its portfolio, recording 121% of pre-covid (Q1 FY20) income levels.



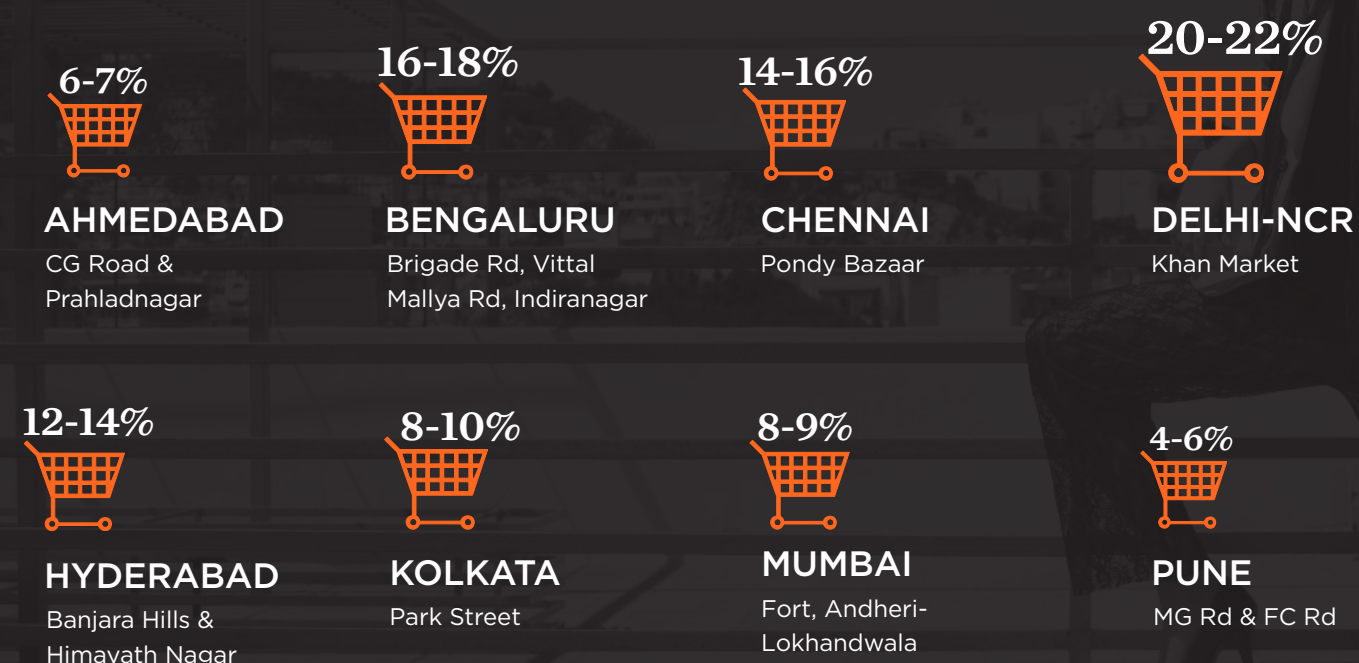
## 1.2 Ease of access at times of restricted mobility benefited highstreets

Highstreets gained a lot of prominence amongst retailers as well as shoppers post-pandemic, largely due to ease of access they offered, besides also providing high visibility to brands. Not surprisingly, therefore, highstreets thrived in times when malls were subject to restrictions owing to social distancing norms.

Consequently, prominent high streets were the earliest retail hubs to resume operation after lockdown restrictions were relaxed post the first Covid wave. As the pandemic gradually subsided, more retailers expressed interest in venturing to high streets, which had limited availability of good quality spaces. As a result, prominent highstreets across major Indian real estate markets witnessed rents rising faster than malls.

As can be observed in the chart, several prominent highstreets across the top-8 real estate markets in India witnessed a rental increase during the period between Q4-21 and Q2-22, owing to high demand.

### Prominent High Street Rental Recovery, Post Pandemic



\*Note: From Q4 2021 to Q2 2022

## 1.3 Consumers' strong urge for retail therapy post-Covid – Revenge Shopping

While recording an accelerated rebound in footfalls, prime mall developers have been also reporting “revenge shopping” phenomena as sales jumped from Q1-2022. Not just in India, revenge shopping has been witnessed in other markets too where recovery from Covid started much earlier. McKinsey defines revenge buying (or shopping) as a phenomenon where consumers indulge in buying goods after being deprived of shopping and social events during a crisis, such as a pandemic. Few prominent mall developers / operators have immense faith that the current growth in footfalls is likely to persist as people have high preference to spend time outside from the confines of their homes<sup>6</sup>.



## Segments of Revenge Consumption/ Countries



INDIA



USA



CHINA



### Retail Sales / Consumer demand

- DLF, which operates two luxury malls in Delhi-NCR, said that in year 2021 luxury brands in its malls have recorded a growth of 150% in sales over pre-pandemic (2019).
- Luxury brands such as Christian Dior recorded y-o-y growth of 52.9% in FY21, followed by 50% growth of Chanel<sup>11</sup>.
- During first quarters of CY2021, dealers of luxury watch brand Rolex India reported shortage in stock due to surge in demand. Dealer's available stock had come down to two or three dozen as compared to an average of 200 to 250 units<sup>12</sup>.
- In Q1-2021, luxury goods companies such as Kering and Hermes reported a q-o-q sales jump of 46% and 23%, respectively, indicating strong bounce-back from the lockdown<sup>9</sup>.
- According to a survey conducted by SlickDeals.net<sup>10</sup> in May 2022, 73% of adults said most of their purchases are spontaneous, a significant jump from 59% last year. The same survey suggests that shoppers now spend an average of USD314 every month on impulse buying, up from USD276 in 2021 and USD183 in 2020.
- Luxury goods recorded an uptick in sales where brands such as Tiffany saw a 30% and 90% growth in store levels sales for the months of April and May 2022, respectively, when compared to same period last year<sup>7</sup>.
- Brands such as Dior, Cariter and Michael Kors to pivot more resources to China<sup>8</sup> to capture greater spends on luxury.



### Domestic automobile sales

- Luxury and premium automobile brands BMW and Mercedes-Benz have reported spike in sales during H1-2022. In H1 2022, BMW reported 64% y-o-y growth in luxury segment, whereas the group's luxury motorcycle also registered a spike of 56.7% for the same period. Similarly, Mercedes-Benz registered a 56% in H1-22 over a y-o-y basis.
- From 2019, US automobile sales had recorded negative growth for two years, and year 2020 saw sudden decline of 15.8%. Year 2021 recorded a rebound in sale volume of ~2% y-o-y.
- In 2021, luxury car brands such as Rolls-Royce, Toyota Lexus, BMW and Tesla recorded healthy growth in sales. Rolls-Royce, BMW, and Lexus grew by 46%, 21%, and 11% y-o-y, respectively, whereas Tesla saw an 87% jump in global deliveries in the same period.
- As per Rolls-Royce Motors America President, most buyers during this time were first-time customers.
- According to China Association of Automobile Manufacturers (CAAM)<sup>13</sup>, passenger car sales entered positive growth phase from May-2020, and gradually rose to register the peak volumes during the quarter of Oct-Dec 2020.
- In 2020, Chinese passenger car sales recorded healthy growth of close to 7.2% y-o-y, whereas SUV sales during Oct - December 2020 recorded an average growth of 14.9% over the same period last year. SUV sales in 2019 had recorded a decline of 6.3% y-o-y.



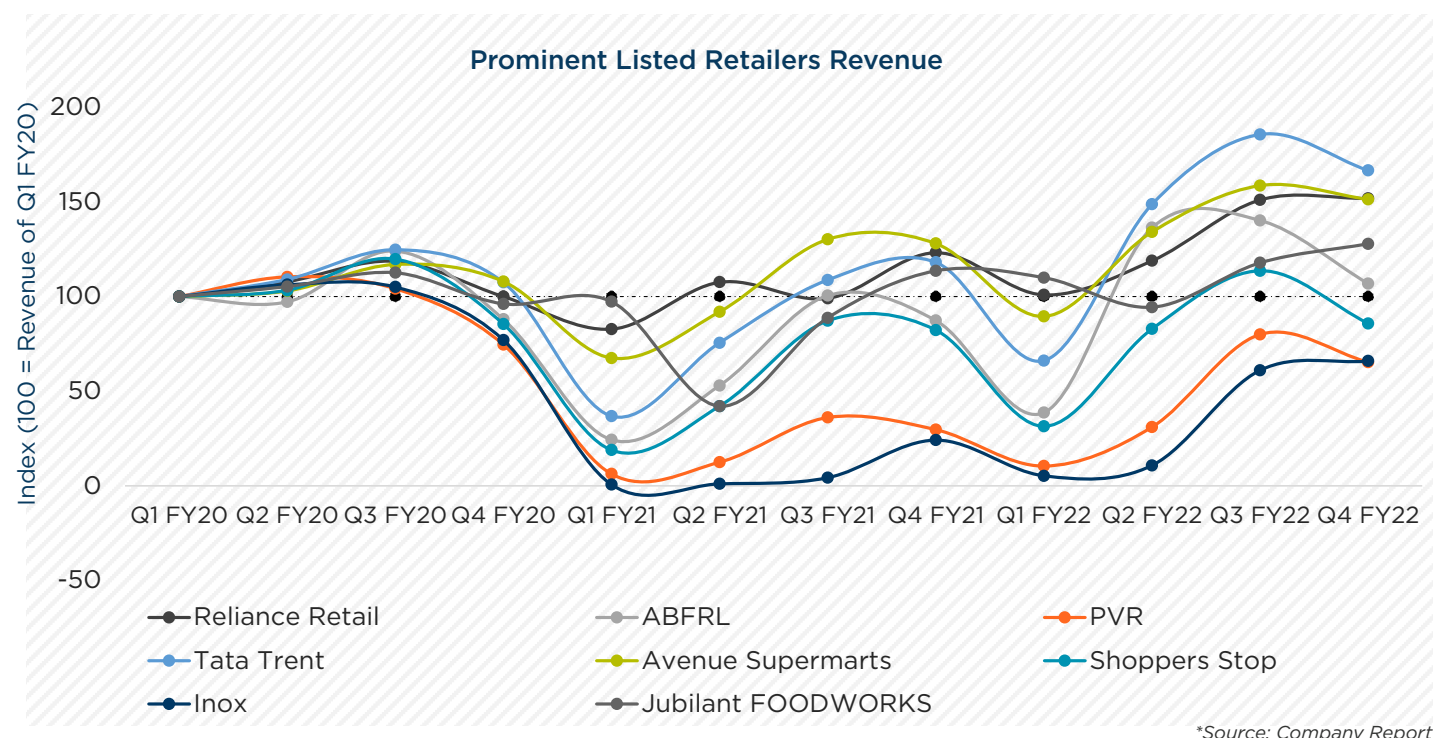
### Domestic / International Travel

- According to the Airports Authority of India (AAI), Q4 FY22 (Jan-Mar) recorded a 65% q-o-q growth in domestic passenger travel and the first half of 2022 registered a 69% y-o-y jump.
- For the first half of 2022, quarterly average domestic travel in India has touched 80% of pre-pandemic (2019) levels.
- Travel insurance company Allianz Partners, which analysed 40,000 itineraries planned for June-September 2022 period, estimates that American travel to Europe jumped 600% y-o-y.
- A Delta Air Lines statement said that this demand is a customer pent-up reaction to the pandemic<sup>16</sup>.
- During the first week of October 2020, marking long holiday period of China's national day, the Chinese ministry of culture & tourism projected that around 550 mn people made plans for trips as a part of revenge travel<sup>14</sup>.
- After most recent lockdown in early 2022, Yunnan, a southwest province of China, recorded 90% of pre-pandemic tourists' influx within first six months of 2022<sup>15</sup>.



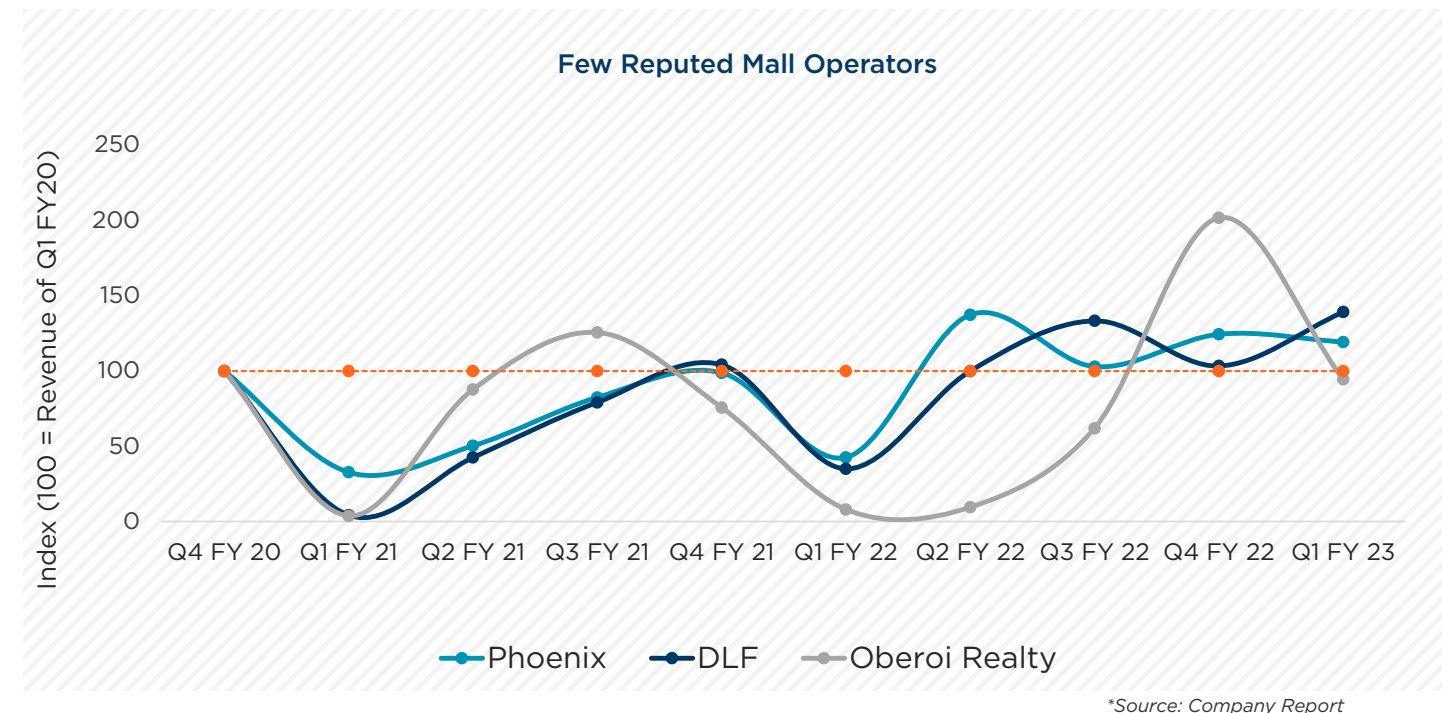
## 1.4 Recovery visible across multiple retailing segments amongst listed retailers

### Listed Retailers Recovery to Onward and Upward



- In the listed retailers' space, Reliance Retail, Aditya Birla Fashion Retail Ltd. (ABFRL), Tata Trent, Avenue Supermart, Jubilant Foodworks and Shoppers Stop nearly recovered to pre-covid sales since Q3-FY21 (except one quarter of sharp dip in sales in Q1-FY22).
- The only category within the listed universe that has not recovered fully is the entertainment / cinema category, largely owing to social distancing norms that were mandated by city authorities on entertainment until Q1-22. However, recent two quarters as seen in the chart were encouraging and suggests an imminent recovery.
- Reliance Retail has attributed the rise in revenue to a broad-based pick-up across all consumption categories, with nearly 87% stores open in FY22 that had received >80% of pre-covid level footfalls. The retailer even resorted to massive expansion with store count in FY22 reaching >15,000 from merely 12,640 stores as of FY21.
- As per Avenue Supermarts, consolidated revenue from operations in H1 2022 has seen a growth of 49% when compared to the same period in 2021. During FY21, almost 22 new stores were opened, and the firm is likely to add 135 more D-Mart outlets by March 2024.
- In H1 2022, Tata Trent recorded a 124% growth in revenues when compared to H1 2021. The company has plans to add of 215 stores by the end of FY24 between Zudio and Westside fashion brands.

## 1.5 Recovery in revenues at pre-covid levels across a portfolio of listed mall developers



- Unlock 2021 (beginning July-21) instantly brought with it a 2X rise in footfalls and nearly 90% recovery in business on an annualised basis across Brigade Group malls.
- In September 2021, DLF had recorded highest footfalls in over 13 years in its two luxury malls in Delhi-NCR. Tenants there recorded sales growth between 50% to 300%, says the company.
- Other reputed mall operators such as Ambuja, Omaxe, Prestige, SelectCity and Nexus malls have recorded a rebound in sales and footfalls in the first half of 2022, as per media report. These are very much in correlation with our listed mall sales recovery visible in the above chart.

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# RETAIL REALTY, ON A JOURNEY OF TRANSFORMATION- RE-INVENT

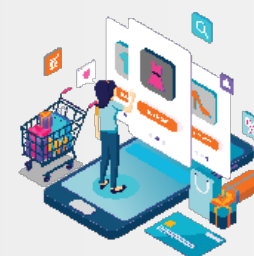


Experimentation and innovation are key for brands and mall operators to differentiate themselves and effectively combat the e-commerce onslaught. Enough has been talked about it conceptually, however, there are visible initiatives taken by several brands & mall operators in India.

## Factors

## Few examples of brands / malls adapting to new-age retailing formats

### Experiential Retail



- As retailers focus on increasing the in-store experience, L'oreal stores provide virtual mirror that gives a feel of how certain selected products would look on the user.
- Polo Ralph Lauren has rolled out an interactive mirror in the fitting room of its flagship stores in USA as cameras inside the room would use the RFID technology to browse a range of product data and offer recommendations to shoppers<sup>17</sup>.
- Tanishq, a leading jewellery retailer has installed augmented reality kiosks which use VR enabled technology at Delhi and Bengaluru airports in order to elevate the shopping experience which lets customers try jewellery as many times as they want<sup>18</sup>.
- Indian fashion retailer, Lifestyle, has added features such as self-check-out kiosk, mobile POS, fitting room assistance to augment in-store experience<sup>19</sup>.
- PUMA has launched its digitally enabled experiential store in Bengaluru which is its largest store in South India. The store offers state-of-the-art facilities including F1 Simulators and interactive retail screens with an objective to bring technology, sports and experiential retail under one roof.

### Technology & Advanced Analytics



- Groupe Zannier (now Kidiliz Group) is a French fashion & apparel brand with a portfolio covering segments of children and adult fashion. To maintain the dominance in the market, Kidiliz consolidates data with two large ERPs to distil the retail activity to discover consumer buying patterns to influence real time sales and inventory decisions.
- Arvind Fashions, Reliance Retail, ABFRL and other prominent Indian brands have announced their adaptation of big data analytics at portfolio level. For example, Pantaloons has deployed Algonomy, a composite AI decision engine that allows retailer to store data to holistically personalize end-to-end omni channel experience of each shopper.
- Bata implemented an AI-powered video analytics solution that uses store's video infrastructure for data collection and insight generation on smart conversion and audience segmentation which in turn boosts in-store sales, operations, and customer happiness.
- BlackBerry with its omnichannel presence, uses an AI and ML platform to analyse parameters like reachability, responsiveness score, and conversion probability and the platform's smart algorithm automatically selects the ideal channel mix for a consumer



## Cross-Functioning & Customization<sup>20</sup>



- As shopping malls are re-strategizing, prominent malls such as Select CITYWALK and few of the DLF malls are re-shuffling their tenants, based on store location, size, format and new brand entry. According to DLF, the placement of brand is carefully curated keeping in mind the customer delight factor.
- According to Select CITYWALK, strong anchor tenants attract more than 30% of the total mall footfalls, hence the mall operator shuffled and diversified its tenant mix into mini anchor tenants with brands such as Zara, H&M, Sephora, Croma, Home Stop, Decathlon, Pantaloons, Modern Bazaar and large anchor tenants with brands such as UNIQLO, Marks & Spencer, PVR Cinemas and Hamleys to drive footfalls.

## Retail as a Service



- Omni-integration of stores in malls with the retailer's website has created a win-win situation for the retailers and malls, where online orders are being catered by the stores at malls by reducing the delivery time and reverse logistics costs. This has not only reduced the fulfilment cost but also strengthened the trust.
- According to Arvind Fashions, brands such as Calvin Klein and Tommy Hilfiger have made their stores at malls as hyperlocal fulfilment centres which helped their store sales to grow by 15-20% from September 2020 onwards through Omni-channel integration<sup>21</sup>.

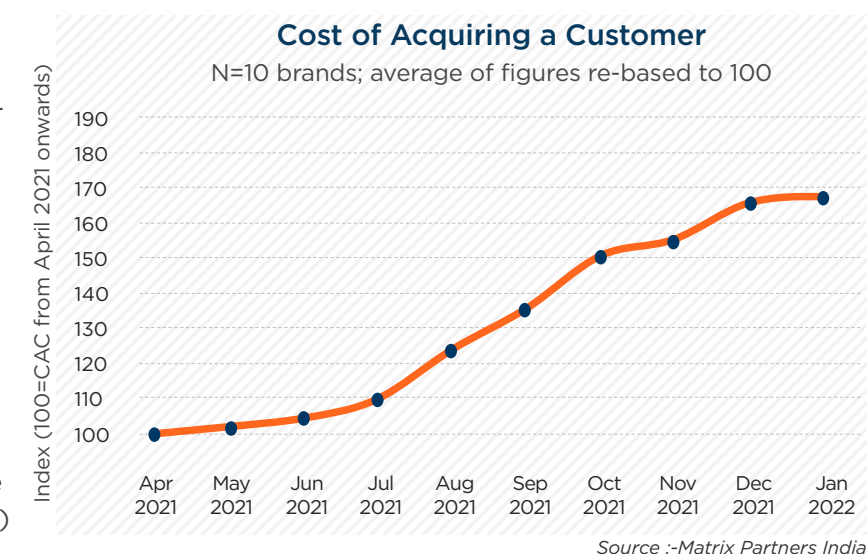




# 3 PHYSICAL RETAIL: REINFORCING ITS RELEVANCE IN THE E-COMMERCE ERA





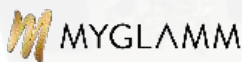

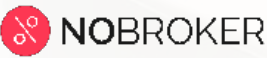



The pandemic has accelerated growth of digital adoption amongst consumers across multiple sectors, including in retail. This has immensely benefited the e-commerce sector, which was growing fast and now they command a respectable share in the overall retail pie. Simultaneously, with instances of some mall closures happening in over-built retail markets in USA, market observers were quick to link it to the e-commerce onslaught. As a result, some global real estate observers believed that growth of online retailing will eventually result in reduced significance of physical retail. However, at Cushman & Wakefield, we observe several factors that indicates at a strengthening competitiveness of physical retail, and consequently, physical retail will regain its significance and will be closely aligned with digital retailing to form Phygital Retail. There are some strong indicators that suggests the sustainability and growth of physical retail.

- 1. Rising cost of acquiring a customer (CAC)<sup>22</sup> :** With the meteoric rise in early-stage digital-only brands, there is a clutter of brands waiting to make its mark in the retailing world and begin trading goods or services. Efforts towards advertising in the digital world is rising, and as a result, the cost of advertising, promotions etc. on online platforms has gone up significantly. All of this has an adverse impact on retailers, whose cost of acquiring a customer (CAC) is on a steep rise. For instance, a recent report by Matrix Partners India (an early-stage investment company) suggests that merely in 9-10 months (from Apr-21 to Jan-22), the cost of acquiring a customer has shot up by around 70%. The report says that it could be cheaper for digital-only brands to earn the initial few crores of business, although to sustain this would require some offline retailing experiences.
- 2. Higher conversion rates<sup>23</sup> :** Physical stores have much better conversion rate of 20-30% when compared with online conversion rates of merely 2-3%. Conversion rate is nothing but a ratio of customers making a purchase with customers who entered the store. There are several research studies that highlights the significance of a physical store in boosting sales within a certain geography as customers rely on brands that have a physical presence within their geographical reach.
- 3. Physical retailing is tried and tested formula:** According to Tracxn, as of June 2022, out of 600 new internet-first brands, 410 have started in the last two years during the pandemic born out of accelerated adoption of interest and elevated interest from VCs. Now according to Bernstein, with economy reopening, these brands are witnessing a slowdown in active users. Hence these brands are looking for physical space to expand their market





## Indian E-commerce retailers foraying into physical retailing: few examples

Sr No.	Retailer	Cities	Category	Outlook / Strategy	Sr No.	Retailer	Cities	Category	Outlook / Strategy
1.	 bigbasket	Bengaluru	Grocery, F&B	In November 2021, opened its first brick & mortar store branded 'FresHo' in Bengaluru. Further, BigBasket targets to generate INR12,000 crore revenue from 800 stores by 2026. The brand felt the opportunity to open a fresh vegetables and fruits store in an organised retail format which is limited in India.	6.	 plom	More than 10,000 third-party retail outlets	Beauty, Wellness & Personal Care	The brand has announced plans to open 50 exclusive branded outlets by 2023. Plum, which began as an internet-first brand in 2014, has physical presence in more than 225 towns and cities across the country.
2.	 caffeine	Multiple locations in Western India	Personal Care	The brand started physical sales last year with a plan to have its products launched across 10,000 outlets by 2022. The brand is eyeing expansion in international waters would likely follow similar strategy of online-first followed by offline expansion.	7.	 REPLAY	Delhi-NCR	Apparel & Clothing	The Italian denim brand, which was selling online in India, planned for tapping the offline market partnered with Reliance and opened its first store in Delhi NCR in 2019 and plans to open outlets in Delhi and Mumbai.
3.	 MYGLAMM	Multiple cities	Beauty, Wellness & Personal Care	The beauty brand opened a 3,000 sft experience centre in Mumbai in 2020. After its success in Mumbai, the brand plans to open similar store in Delhi-NCR.	8.	 THE MAN COMPANY	Nearly 1,200 retail outlets in 75 cities	Beauty, Wellness & Personal Care	The exclusive men's personal care brand plans to open new stores in Ghaziabad, Jammu, Amritsar, and Lucknow as part of its retail expansion plan. The brand also plans to expand its omni-channel distribution network to reach over 100 cities with a presence in over 10,000 stores by the end of 2022.
4.	 NOBROKER	Bengaluru	Home Interior	NoBroker has recently ventured into home interiors space with its first-ever experience centre in Bengaluru. The brand has plans to open experience centre each in five more cities by the end of 2023.	9.	 UNDER ARMOUR	Delhi-NCR, Hyderabad	Athleisure, Apparel & Clothing	Strategy is to open stores on the ground floor of prominent malls to give the brand greater visibility. The brand's first store, opened in 2019, in DLF Promenade during its first month clocked highest sales per sft in the world within its own portfolio.
5.	 NYKAA	Multiple cities	Beauty, Wellness & Personal Care	The brand that started-off as an e-commerce platform is planning to more than triple its brick-and-mortar stores to 300 to drive its offline presence in India.	10.	 wakefit	Bengaluru, Delhi-NCR, and Lucknow	Furniture	The brand recently launched its first three stores across Bengaluru, New Delhi, and Lucknow. Aims to open a few more stores across key markets such as Pune, Chennai, and Hyderabad.



3.1 “Phygital Retail”: combining the strengths of physical & digital retail formats

Retail is evolving fast to adapt to hybrid or omni-channel formats. Many erstwhile digital-only brands are eager to open stores as highlighted in the previous section, whereas physical retail is rampantly investing in digital mediums to reach-out to patrons. Today, the gap in these two formats is deeply researched upon and, therefore, retailers and mall owners have clear understanding on expectations from each of them. Today, retailers no longer see these two formats competing, but rather complementing each other in many ways. We present an AT Kearney analysis below which attempts to highlight areas of strengths or limitations that each of these formats offer.



Parameters	Physical Retail	E-commerce
Growth drivers & strengths	<ul style="list-style-type: none"><li>Shopping experience</li><li>Physical touch &amp; feel of the product</li><li>Instantaneous purchase &amp; return</li><li>Faster resolution of the need</li></ul>	<ul style="list-style-type: none"><li>Rising internet penetration &amp; smartphones sales</li><li>350 million online shoppers in India estimated by 2026<sup>24</sup>.</li><li>Ease of purchase &amp; sense of convenience</li><li>Wide range of merchandise can be offered</li></ul>
Key Risks / Perceived cost	<ul style="list-style-type: none"><li>Social distancing / pandemic / lockdowns</li><li>Travel cost</li><li>Risk of not finding the right product after searching in multiple stores</li></ul>	<ul style="list-style-type: none"><li>Delivery cost</li><li>Reverse logistics</li><li>Possibility of a wrong product delivery &amp; loss of time in purchasing cycle</li></ul>
Customer Delight & Relationship (CRM)	<ul style="list-style-type: none"><li>Is high, owing to lower perceived cost (failure of the product), ascertained product quality, and related benefits</li></ul>	<ul style="list-style-type: none"><li>Is Medium, despite robust data analytics and CRM systems, these customer engagement systems lack human touch and ascertaining product quality is limited.</li></ul>
Brand Proposition	<ul style="list-style-type: none"><li>According to Retail Dive’s consumer survey, 2017, shoppers preferred purchasing in-store products with rich brand positioning and big-ticket items<sup>25</sup>. 62% respondents want to see, touch, feel and try out products before purchase.</li><li>Physical retailing is an important facet for reputed brands to maintain brand loyalty.</li></ul>	<ul style="list-style-type: none"><li>Higher probability of brand switching happens in online platforms.</li><li>Requires influencer marketing to maintain the brand image, which may dilute the brand positioning in mid to long term.</li></ul>
Conversion Ratio	<ul style="list-style-type: none"><li>Conversion rates vary as per the segment, though physical stores have higher conversions (20-30% in stores)</li></ul>	<ul style="list-style-type: none"><li>E-commerce stores have lower conversions rates of 2% - 3%<sup>26</sup>.</li></ul>
Competition & Consolidation	<ul style="list-style-type: none"><li>Highly fragmented, benefitting the end consumer</li></ul>	<ul style="list-style-type: none"><li>Consolidated, fewer e-commerce brands hold majority of the market share.</li></ul>



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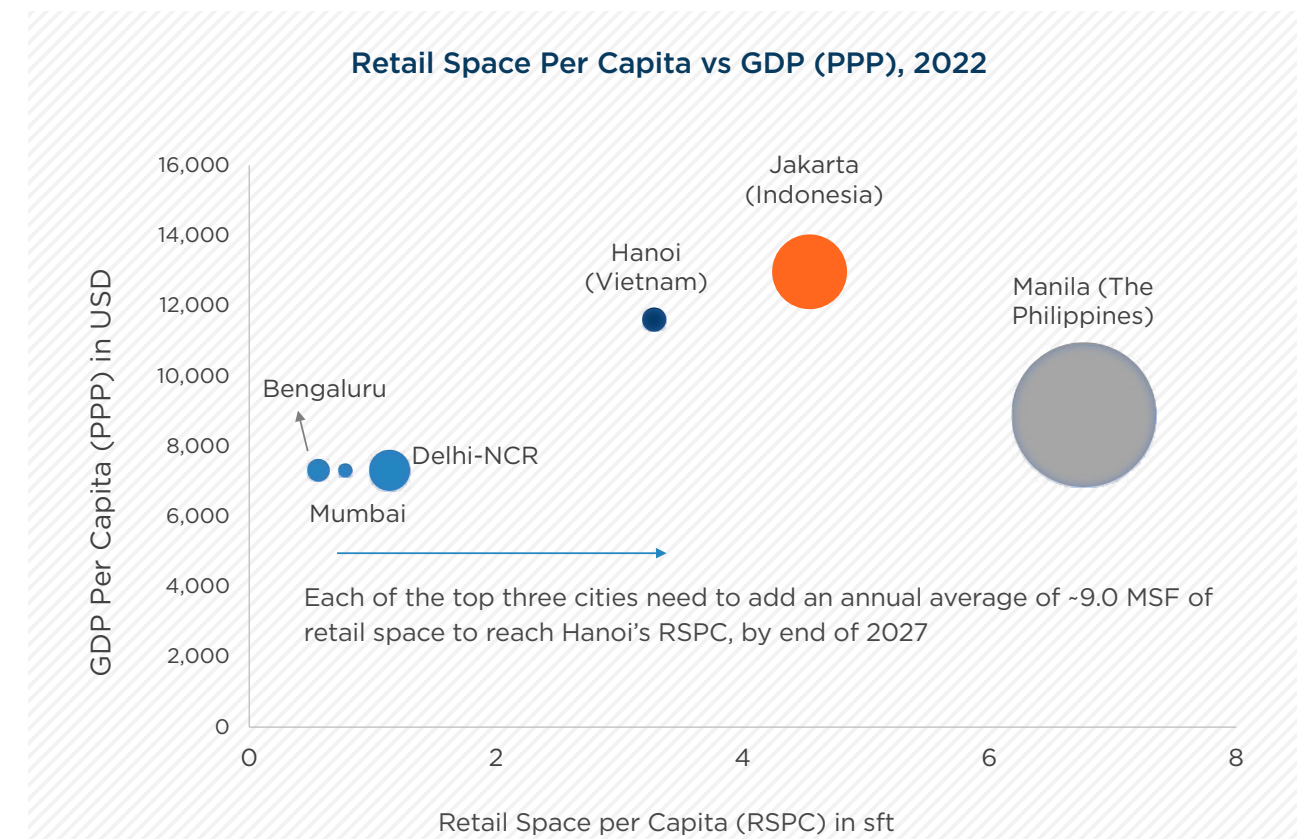
# INDIAN RETAIL REAL ESTATE IS UNDER- PENETRATED; HAS VAST ROOM FOR GROWTH



Retail space per capita (or RSPC) is an important yardstick to look at the penetration of organised retail space across countries or cities. Advanced consumption-oriented countries such as the USA, Canada and Australia have been enjoying an RSPC in double digits, with USA at 23 (highest in the world). China too has an RSPC of ~5.0 per person. Being a large consumer market, India's organised retail penetration is low in comparison. Even in the tier-I metropolitan cities such as Delhi-NCR, Mumbai MMR and Bengaluru (together accounting for >70% of retail mall stock amongst top-8 real estate markets), RSPCs range between 0.5 to around 1.0 per person. The below chart compares Retail Space Per Capita (RSPC) and GDP per capita (PPP) across emerging Asian peers, where the size of the bubble represents the total retail stock of the city.

As per IMF estimates, India's economy is expected to surpass USD 5.0 trillion by FY2027<sup>27</sup>, in the process lifting ~25 million households out of poverty, thereby transforming itself into world's third largest consumer market. In an expansionary consumer market, retailers will look for newer avenues to reach out to consumers through physical retail space. With India's GDP per capita (PPP) estimated (by IMF) to grow at a CAGR of 8.2% for the next five years, India is likely to reach Vietnam's current income levels by 2027. Given that level of income, India would have the potential spending capacity that is going to demand an RSPC equivalent to that of Vietnamese cities today.

To achieve Hanoi's current RSPC of 3.3, each of our top three cities (Mumbai, Delhi-NCR and Bengaluru) would require an average of ~9.0 msf of additional retail space every year, till 2027. With India recording an annual average mall supply of 3.8 msf, across top-7 cities during the last five years (2017-2021), there is huge scope for the retail realty sector to grow given this size of the opportunity. Modern retailing techniques and the higher experiential quotient will have to be delivered, thereby enabling reputed & skilful players an upper hand in the foreseeable retail growth story of India.



Source: IMF & C&W Research



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## AUTHORS



**SUVISHESH VALSAN**

Director, Research Services, India  
Suvishesh.Valsan@cushwake.com



**SRIJA BANERJEE**

Assistant Vice President, Research Services, India  
Srija.Banerjee@cushwake.com



**ASHISH VARANASI**

Assistant Manager, Research Services, India  
Ashish.Varanasi@cushwake.com

With research contributions from **AM LAKSHMI**

## For further information, please contact



**AWANTIKA MOHANTY**

Head of Business Development Services  
India, Singapore and SE Asia  
Awantika.Mohanty@cushwake.com



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