India Retail Reboot 2021

REPORT CBRE RESEARC OCTOBER 2021



Contents

O3 Section 1

Retail Sector During The COVID-19 Outbreak

06 Section 2

The COVID-19 Impact: Realignment In Retail Categories

OS Section 3

What Lies Ahead: Rethinking Pre-COVID-19 KPIs



Retail sector during the **COVID-19 outbreak**

during the second wave hindered the recovery

Lockdowns The most immediate impact of the COVID-19 pandemic and the resultant nationwide lockdown in March 2020 was felt on the retail sector as the government-mandated shutdowns, travel restrictions and social distancing made a huge dent on consumer confidence and discretionary spending. As a result, sale of products that fell in the "non-essential category" was negatively impacted not only across store-based retailers, but also on e-commerce platforms.

> However, the receding pandemic, commencement of a vaccination drive and lifting of restrictions towards the end of 2020 resulted in increased footfalls across high streets and malls. The recovery gained further momentum in early 2021, especially across southern and northern cities as Pan-India retail sales in February 2021 touched almost 93% of February 2020 (pre-Covid) levels1.

> However, the onset of the second wave in April 2021 and re-imposition of the lockdown restrictions impacted consumer confidence and purchasing activity once more. But, unlike the national lockdown in 2020, the impact on retail was not as severe because most restrictions were regional / localized. The gradual lifting of restrictions since early June led to a steady rise in footfalls. This recovery was initially led by North India, where a relatively stronger bounce back from the second wave was witnessed; and mostly recreation-led footfalls improved across prime malls and high streets. From July 2021 onwards, this recovery was visible across other regions in the country as well and Pan-India retail sales reached more than 70% of the July 2019 levels2.



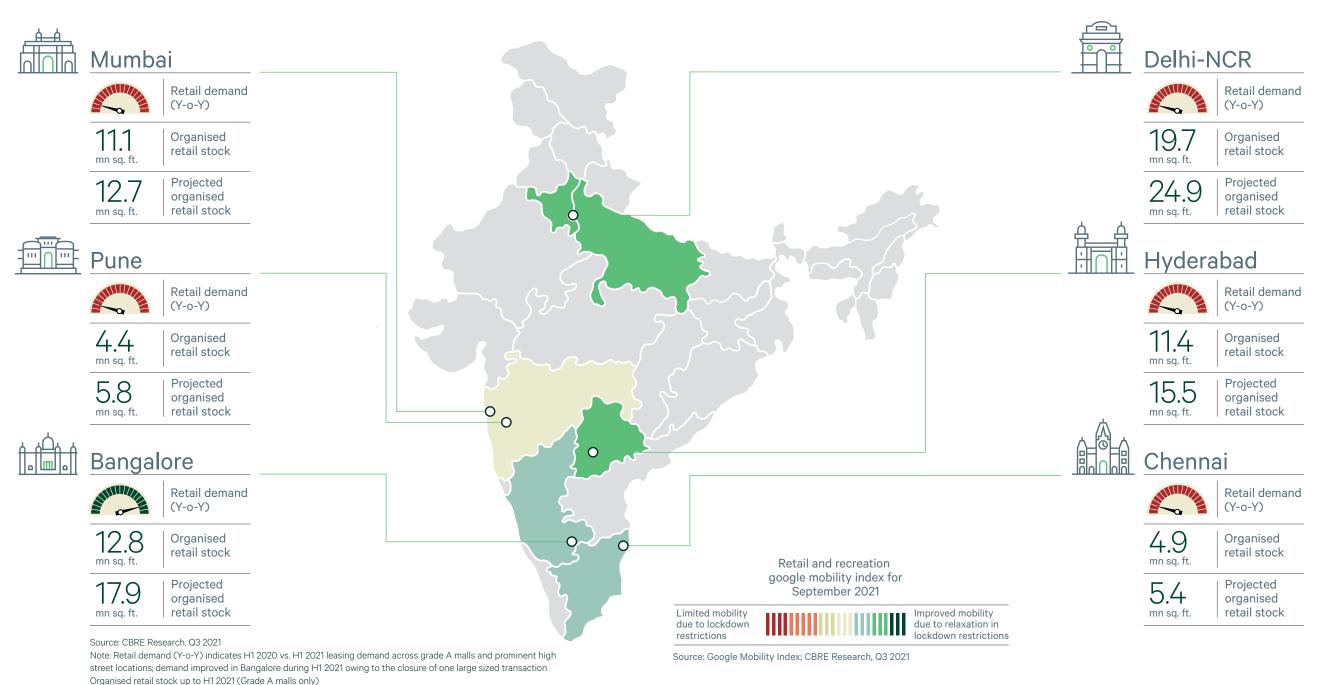
1. 13th Retail Business Survey by the Retailers Association of India

2. 17th Retail Business Survey by the Retailers Association of India

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Figure 1.1: Current retail demand, organised retail stock and projected organised retail stock across major cities in India

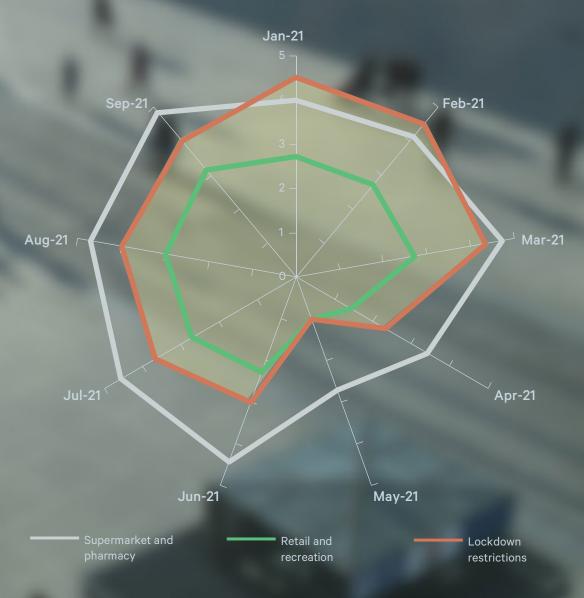
Projected organised retail stock up to 2023 (Grade A malls only)



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Figure 1.2: Month-wise mobility index for India

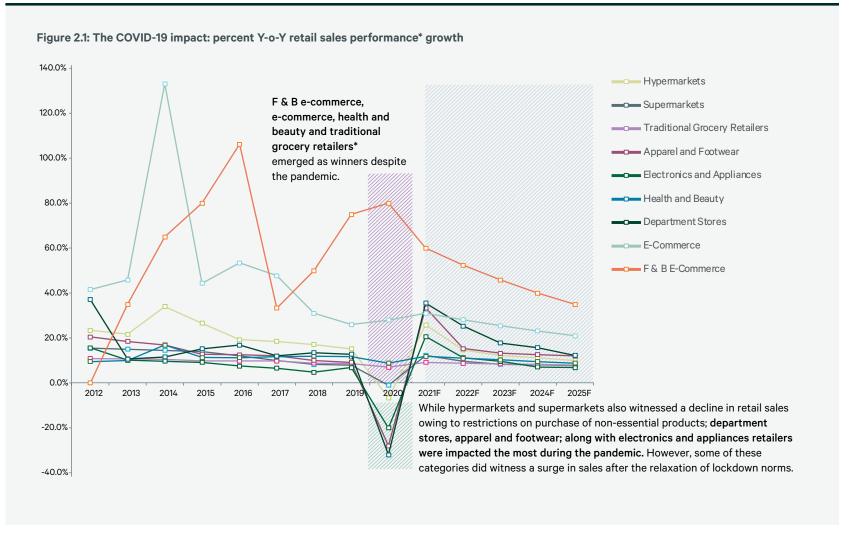


Source: Google Mobility Index; CBRE Research, Q3 2021

The COVID-19 impact: Realignment in retail categories

As the unpredictability intensified, changing priorities resulted in a reshuffle in "top" categories

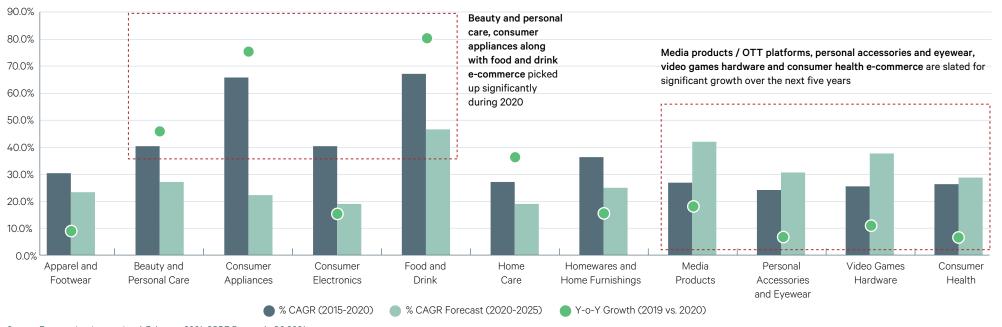
The COVID-19 pandemic induced not only a change in economic growth direction but also resulted in a realignment of consumption patterns. As consumer priorities witnessed a change in order, the preference for 'conscious spending' increased and significant shifts were witnessed in consumer purchase behaviour – both across physical retail and e-commerce.



Source: Euromonitor International, February 2021; CBRE Research, Q3 2021 Note: Traditional grocery retailers - local neighbourhood stores *Retail Sales Value RSP (Retail Sales Price) excluding sales tax

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Figure 2.2: The COVID-19 impact: growth categories for e-commerce



Source: Euromonitor International, February 2021; CBRE Research, Q3 2021



Figure 2.3: Demand across retail categories







Electronics and **Appliances**



Hypermarkets, Supermarkets and Traditional Grocery Retailers



E-commerce and F&B E-commerce

Pent-up demand is likely to lead to a strong rebound as people return to offices, start travelling and socialise.

Most retailers are expected to continue ramping up their digital / online capabilities to remain competitive. Store-based retailers will focus on unique shopping experiences such as smart mirrors, smart fitting rooms and other personalised / appointment-based options.

The need for a physical experience will continue to fuel retail space demand and retailers that previously focused on presence in shopping centres are likely to expand in standalone / mixed-use developments and high street locations to widen their footprint. Certain categories of stores may alter store sizes / layouts to align with their modified plans / strategies post the pandemic.

The sales of beauty specialist retailers were severely impacted due to the lockdown restrictions; however, the performance of health retailers (chemists / pharmacists) was better than usual due to the increase in demand for OTC (overthe-counter) drugs. As purchasing patterns normalise, beauty specialist retailers are anticipated to make a strong comeback. The focus of beauty brands will remain on widening product offerings, while building a strong online presence to complement their physical stores, especially in tier II cities.

In addition, as the chemists / pharmacists' space continues to be highly unorganised, leading players such as Apollo Pharmacy, Tata 1Mg and MedPlus are anticipated to expand aggressively.

While the sale of certain electronics and appliances suffered during the pandemic, higher demand was witnessed for products such as desktops, monitors, laptops, electronic accessories from professionals working from home, as well as for consumer appliances such as vacuum cleaners, dishwashers and personal grooming appliances. Retailers not only ramped up their online and delivery services but also partnered with banks to offer attractive payment options.

Although consumers would continue to research products online, the need to visit stores to vet the items would remain intact. Therefore, multi-brand outlets are likely to become a preferred choice among **consumers** and we expect retailers such as Croma and Reliance Digital to continue to expand.

Due to a decline in footfalls, retailers had to find innovative ways to engage with consumers. While some brands such as Shoppers Stop, Lifestyle, etc. already had established online platforms, other retailers started to offer virtual tours and personalised shopping through various online platforms.

Department

Stores

Despite a slow recovery across department stores, their one-stop shopping experience format is likely to remain popular among consumers.

Hypermarkets are likely to remain popular as time-pressed

consumers are expected to make bulk purchases to ensure fewer shopping trips. Consumers will remain value-conscious which will benefit hypermarkets as they are better placed to offer discounts due to their volumes. The comeback of non-essential sales is likely to aid recovery and growth across supermarkets. On the other hand, traditional grocery retailers are likely to maintain their popularity as their easy accessibility and a loyal customer base remain their strengths. These outlets will also play a critical role in last-mile deliveries for e-commerce players.

As hypermarkets and supermarkets are large format stores, expansion opportunities in metro cities could be limited. However, low penetration of modern grocery retailers, lower real estate costs and availability of large spaces offers tremendous expansion opportunities in tier II and tier III cities.

The pandemic acted as a catalyst for e-commerce in India, accelerating consumers' move to online shopping. E-commerce is expected to witness high growth going forward and is likely to co-exist well with storebased retail channels. As penetration remains low, higher growth in e-commerce is expected, especially in the tier II and tier III cities.

Due to the movement restrictions and temporary closure of food outlets. online ordering of F&B increased tremendously, and F&B e-commerce was among the fastest growing categories in e-commerce during **2020.** Leading operators will continue to focus on technology enhancement to minimise contact; dark kitchens and partnerships with other storebased retailers will be key to offset logistical challenges in the future.

Similar to e-commerce, expansion into tier II and tier III cities is likely to be the next stage of development in the F&B e-commerce category as well.

Source: CBRE Research, Q3 2021

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What lies ahead: Re-thinking pre-COVID-19 KPIs

A few changes will remain permanent as retailers and consumers align with the new normal

The pandemic has created a new set of challenges for a sector that is fairly unorganised and already dealing with several structural changes. Trends that were on a multiyear trajectory saw a dramatic acceleration and the retail industry witnessed more innovation in the past year than it did in the prior decade.

To traverse through this looming uncertainty, CBRE has identified six imperatives that are expected to help retail stakeholders adapt to a changing consumer landscape while pursuing new opportunities.

Figure 3.1: Imperatives for building a new retail realty



Source: CBRE Research, Q3 2021

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Restructuring retailerlandlord relationships

Post the pandemic, more partnership-like agreements started to surface between landlords and retailers. Landlords provided several relief measures to accommodate retailers, including rental rebates / deferments. Going forward, we expect that lease agreements that are designed to absorb the impact of such structural disruptors while at the same time provide scope for rental growth and visibility on retailer performance would be preferred by retail stakeholders.

Navigating the digital shift

According to a survey conducted by CBRE, 75% retailers believe digital and technological innovation is a key enabler for the retail sector³. Technology in retail is rapidly evolving; especially post the pandemic. Technologies such as virtual fitting rooms will help to synchronise the store's inventory and point-of-sale systems, enabling stores to catch up with data-rich e-commerce by generating insights on data points such as time spent in fitting rooms and conversion rates. Focus on real time data is expected to increase, especially for stores that operate in the essentials category to ensure more accurate information on product availability and consumer behaviour, particularly in unpredictable situations such as the COVID-19 pandemic.

Tapping the altering consumer behaviour

The pandemic fundamentally transformed consumer behaviour and preferences. Health and safety concerns have become important purchase drivers for the consumer, as has the 'price to value' equation where quality for an optimum price is still on top of the decision-making process.

In addition, consumers today are extremely agile, demanding and tech-savvy. Their preferences are rapidly evolving due to their changing lifestyle, better access to different types of data, advancement in technologies, and alteration in the current work environments. They are more aware of the brands they are using and seek comfort and convenience, which is further driving the e-commerce demand. Given these preferences and the pandemic-related disruption, retailers should focus on reinventing their marketing strategies and think of innovative ways to know their consumers better.

3. CBRE Asia Pacific Retail Flash Survey, September / October 2020

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Omnichannel to become omnipotent

Reshaping the idea of a "store", free standing stores to proliferate

A key takeaway from the pandemic has been that buyers are looking to minimise contact and touchpoints. Online shopping has provided existing (and many new) customers with the convenience to shop in a safe environment. As a result, most leading brands and even small, homegrown retailers are either setting up their own e-commerce platforms / partnering with third-party aggregators – in addition to their physical store footprint. While omnichannel was already a trend before the pandemic, the change in consumer shopping patterns (some of which are expected to be permanent), have ensured that retailers consider omnipresence as one of the pillars of their business plan. Just like virtual kitchens were an invaluable asset to businesses that had them during the pandemic, omnichannel is expected to be the fallback plan for businesses during uncertainties / lean economic cycles.

While brick-and-mortar stores will undoubtedly remain key going forward, experiential retail would hold sway among brands. Meanwhile, store design and location strategy is likely to evolve in response to consumers' changing expectations. CBRE foresees the redistribution of space between the various areas of retail stores such as fitting rooms, product testing zones, pick-up counters and stockrooms. As a result, less space will be allocated to areas that have a minimal positive impact on consumer satisfaction. With inventory management already being optimised with the aid of predictive demand analytics, brick-and-mortar stores may eventually become inventory free as purchases would be dispatched from warehouses to consumers' homes upon payment. Check-out counters could also be reduced in size or replaced entirely by mobile Point of Sale (POS) systems. Location strategies are expected to be more inclusive – **brands that did not consider** high streets as a viable option will seek space in these locations to allow easier customer access for business **continuity** – in case of any further restrictions on movement being imposed.

Rethinking retail asset management strategies,

health and safety to remain paramount

Similar to other aspects in the sector, retail asset management strategies are also expected to evolve post the COVID-19 pandemic. Landlords are likely to adopt measures and technologies (touchless tech) to improve the sanitation of physical environments as our hygiene awareness has reached unprecedented levels. Physical spaces are likely to be rethought and social distancing may remain in effect going forward as well – attention is already being paid to vaccinated staff as a key "safety parameter" for customers. Developments that are currently under construction / planned are expected to make provisions for more open and green spaces in their design layouts. In addition, adoption of PropTech is likely to take centre stage in the maintenance and day-to-day operations across the retail-built environments.

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