CBRE

FOOD FOR THOUGHT...

DEMYSTIFYING THE OPPORTUNITIES IN F&B RETAIL

CBRE RESEARCH | 2018

CONTENTS

INTRODUCTION

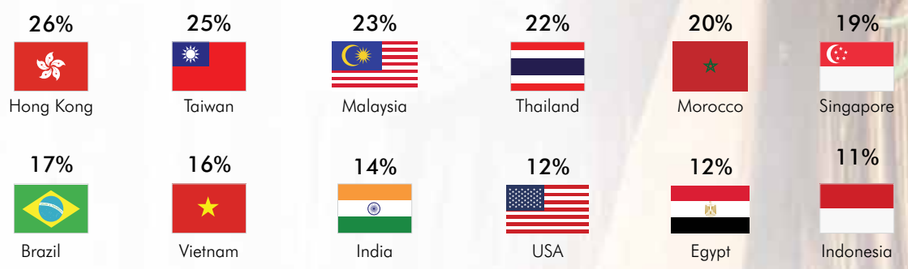
The Food and Beverage (F&B) segment, globally and in India, has undergone a transformation, moving away from a "sub segment of retail" to a" full-fledged segment" capable of functioning independently of traditional retail. F&B is no longer a means to only complete the retail experience, but possesses the ability to elevate, and sometimes be the sole retail experience for a consumer. This "food revolution" has happened not only due to the diversity that F&B now offers, but also due to a changing/maturing consumer profile and dining out being looked at more than just a way to satiate hunger.

The change in our F&B landscape has been due to structural shifts in the eating out equation – increasing urbanization, rising disposable incomes, rising trend of socializing, nuclear families, and rising consumerism; all of which have orchestrated a change in the way India dines. Most global operators realize that India is a market that offers significant potential for growth, in the metropolitan cities and beyond. This realization is evident in the measures these operators have taken while entering the Indian market - from customizing their menus, offering home delivery in India as an exception (when compared to other countries of their operation) and expanding their standard offerings - global operators are going all out to ensure acceptance and success. Domestic operators are not far behind, and are offering global cuisines with the right local influence. Their innovations are not limited to global cuisines, as they are also experimenting by lending a modern, fusion twist to traditional Indian food.

The changing demographics coupled with the influx of quality international and domestic operators has resulted in a metamorphosis in our eating out culture– today we are a country that does not eat out on occasions but eats out for social engagement and experience.

The below graph highlights the eating out culture across various countries. India exceeds the global average with 14% of the respondents eating out at least once a day.

EATING OUT DAILY: COUNTRIES THAT EXCEED THE GLOBAL AVERAGE OF DAILY DINERS (9%)



Source: Nielsen's Report " What's in our food and on our mind", August 2016

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FOOD FOR THOUGHT

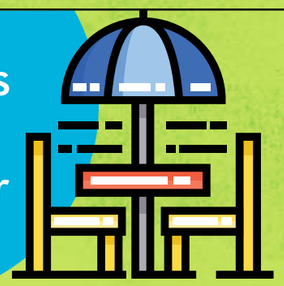
DEMYSTIFYING OPPORTUNITIES IN INDIA'S F&B RETAIL

INDIA'S F&B SEGMENT AT A GLANCE

Why F&B is popular in India?

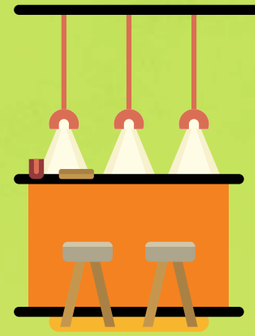
- Rise in disposable incomes, increasing consumerism
- Longer opening hours of restaurants
- Eating out as a culture and lifestyle
- Increasing influence of Media and Technology

Key Trends in India's F&B Sector



- All-day dining emerging as a popular category
- Rising presence of organized domestic chains
- Increased investment in this industry / increased capital availability
- Increasing acceptance of global trends/ wider taste palate

How has the real estate sector responded?



- Increased allocation to F&B in malls
- Food festivals at malls, temporary units/pop up stores for vibrancy
- Emergence of F&B hubs in neighborhoods; organized F&B cluster development
- F&B a key component of office buildings/ business parks

CBRE RESEARCH

This report was prepared by the CBRE India Research Team, which forms part of CBRE Research – a network of preeminent researchers who collaborate to provide real estate market research and econometric forecasting to real estate.

ESTABLISHING THE CONNECT – MILLENNIALS AND F&B IN INDIA

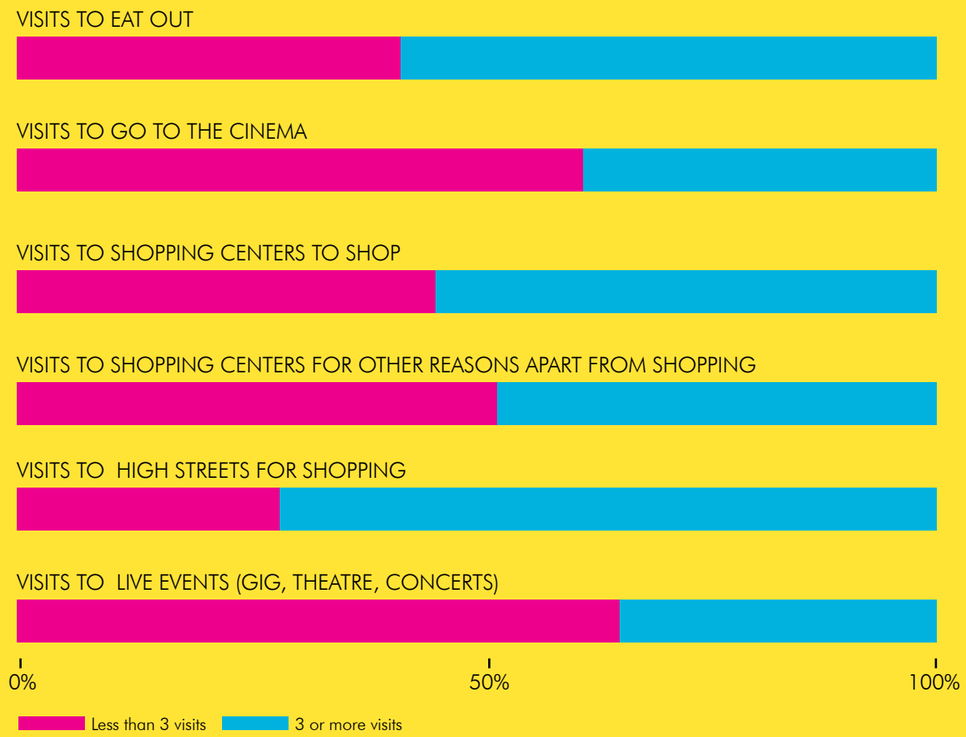
On an average, Indian millennials spend almost 5 days per month dining out

Number of days in a month spent on leisure activities indicated above

Source: Millennials Survey India, 2016

60%

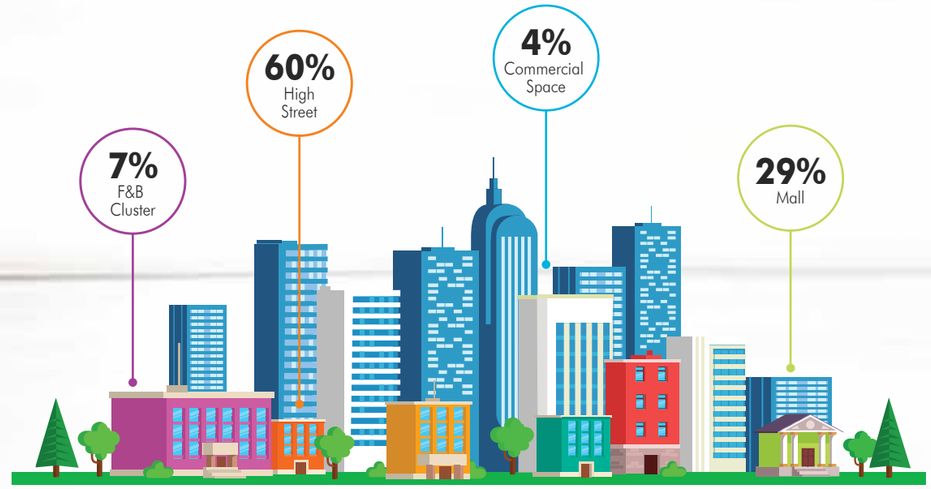
of Indian Millennials make more than three visits a month for eating out



HOW'S THE F&B SCENE IN INDIA?

In order to gauge the preferred location, operation format, dominant cuisine types, as well as the city dynamics of F&B operators, CBRE Research collated and analyzed information for more than 1,260 restaurants across key malls, high streets, F&B clusters and office developments* in the top three cities of NCR, Mumbai and Bangalore. The findings of the research have been detailed in the section below:

WHERE ARE THE RESTAURANTS LOCATED?



Source: CBRE Research, Q1 2018

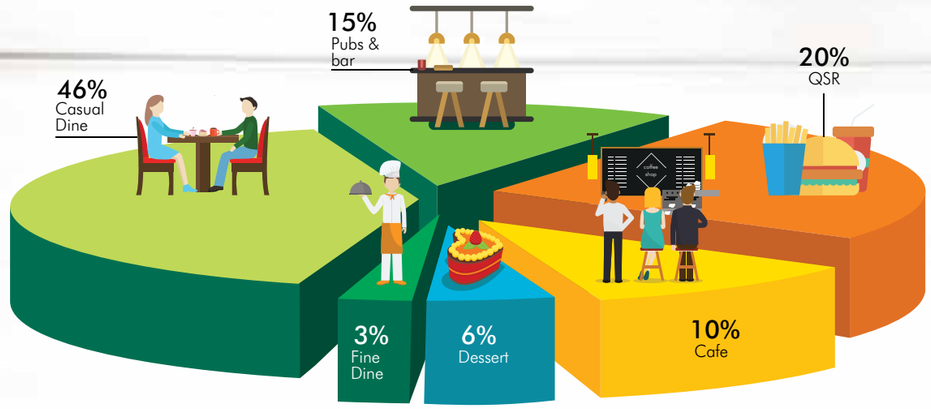
As can be seen above, high streets have a higher concentration of F&B outlets vis-a-vis malls. However, a lot of this location behavior is also a fallout of the real estate supply in most major markets. The dearth of quality retail supply along with organic expansion opportunities that high streets provide is a key reason why operators are densely concentrated across high-streets as compared to malls.
The international restaurant category is dominated by operators from the US with more than 70% of international outlets originating in the US. Also, while high streets are dominated by domestic chains/ standalone restaurants; malls have a higher presence of international restaurants/chains.

WHAT IS THE ORIGIN OF F&B OPERATORS?

Source: CBRE Research, Q1 2018

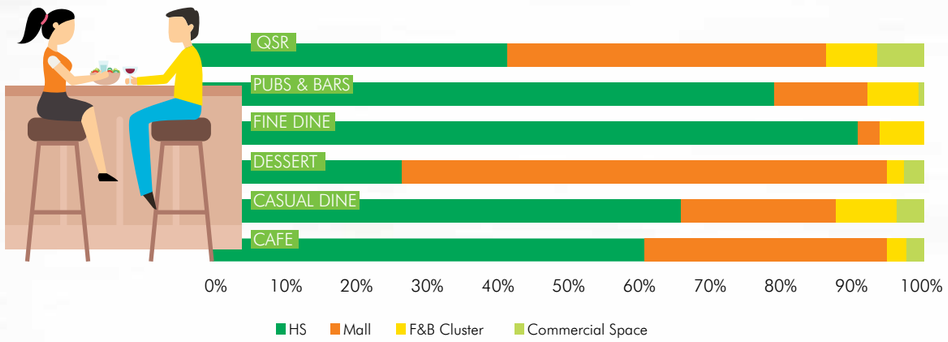
**Please refer to definitions at the end of the report*

WHAT FORMAT OF OPERATION DO THESE RESTAURANTS FOLLOW?



Source: CBRE Research, Q1 2018

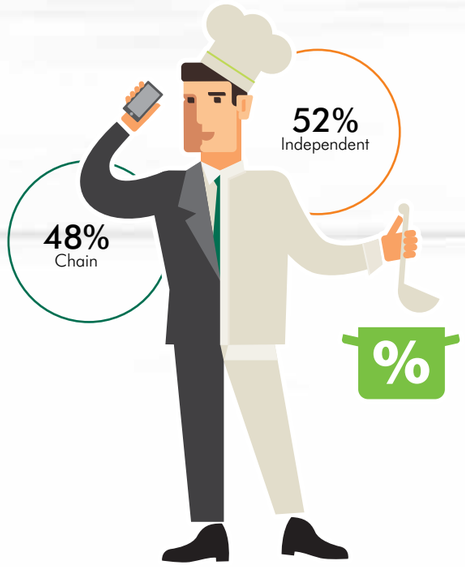
WHAT IS THE LOCATION PREFERENCE OF VARIOUS FORMATS?



Source: CBRE Research, Q1 2018

As compared to a couple of years ago when QSR was the dominant mode of operation; especially among international chains; the restaurant pie has gained significant diversity. For instance, casual dining has emerged as a key target segment and is the dominant category across high streets; followed by pubs and bars. While looking at restaurants in malls, QSRs have a share of around 31% of the overall pie as food courts facilitate an easier presence of such formats in malls.

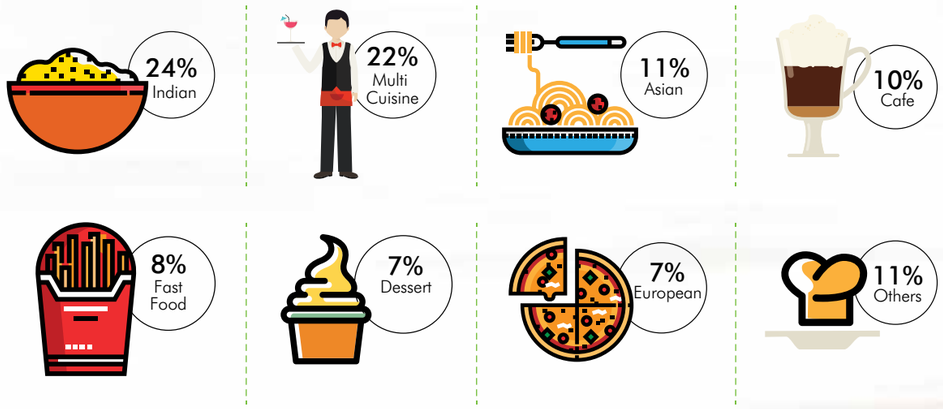
DO THEY OPERATE AS CHAINS OR ARE STANDALONE?



There is a balanced mix of F&B players operating either as stand-alone/ independent restaurants (only one outlet) or as a chain of restaurants. Leading domestic operators, especially those with home turfs in Delhi-NCR or Mumbai, have managed to build a healthy network of outlets across India's leading Metro cities. Almost all international QSR operators have a multi-city presence.

Source: CBRE Research, Q1 2018

WHAT FOOD DO THEY OFFER?



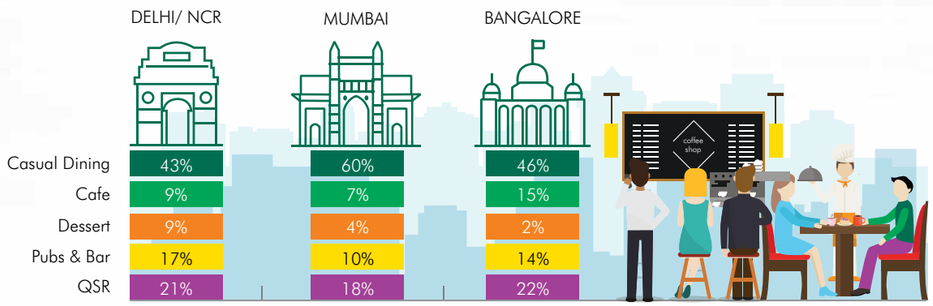
Source: CBRE Research, Q1 2018

While Indian and regional cuisines continue to dominate the taste palette, multi cuisine is increasingly becoming popular as it caters to a wider audience. If we look at the offerings of most multi-cuisine restaurants, Italian and Chinese are the most popular categories offered, in addition to Indian cuisine.

When comparing high streets with malls, it emerges than more than 55% of restaurants across high streets are in the Indian and Multi-cuisine category. On the other hand, the split in malls is more equilateral; with a healthy mix of restaurants across categories such as Indian, Italian, Asian, Fast Food and Cafes.

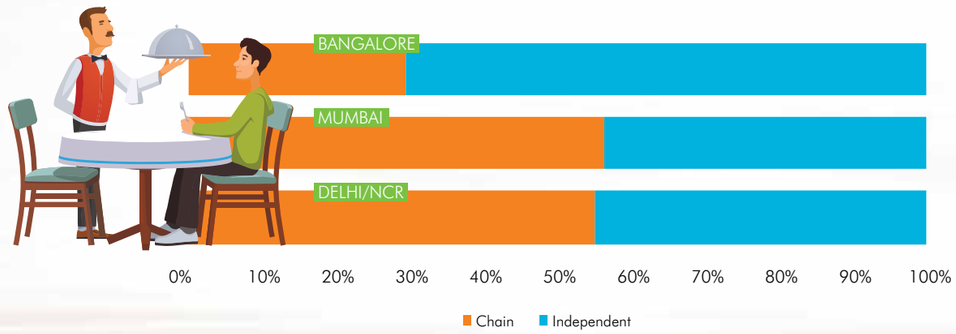
HOW DO THE CITIES STACK UP?

TYPES OF OPERATION FORMATS ACROSS CITIES



Source: CBRE Research, Q1 2018

STANDALONE OR CHAINS?



Source: CBRE Research, Q1 2018

While casual dining is the clear category that dominates across the key cities, the stacking of restaurant categories across cities is witnessing more color as cities move beyond the traditional restaurant and QSR culture. The café category is also witnessing significant traction, with activity moving beyond the international/domestic chains and experimental, standalone cafes sprouting across cities. Also, in terms of the format, domestic chains have gained significant traction with the cities of Mumbai and NCR witnessing a significant amount of "cross expansion", while Bangalore is still dominated by standalone restaurants.

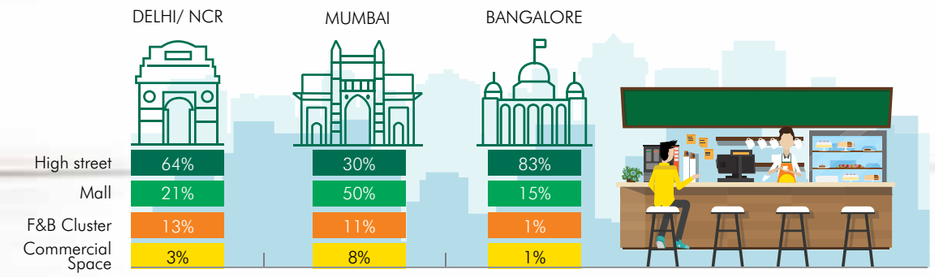
WHAT'S TRENDING?

Becoming "Official" - Emergence of Organized F&B Clusters

While "unofficial" F&B clusters have always been in existence as neighborhood markets in key pockets of each city; organized F&B clusters are a fairly recent trend. Most of the restaurants in such clusters are established domestic and international operators, with the majority of restaurants being a part of established chains. In their cuisine, these hubs are more experimental; multi cuisine, Asian and experiential restaurants are a larger part of these complexes.

Casual Dining – In the driving seat

SPLIT OF CASUAL DINING RESTAURANTS ACROSS CITIES AND LOCATIONS

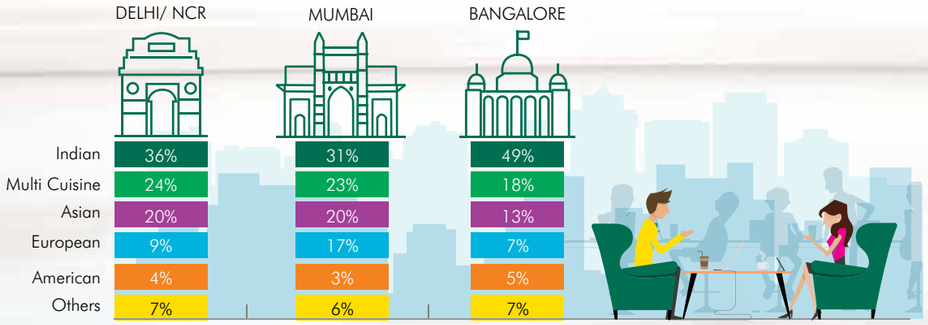


Source: CBRE Research, Q1 2018

High streets dominated by casual dining restaurants

When looking at the spread of restaurants across high streets in the top three cities, close to 50% of all restaurants across the key high streets in these cities were in the casual dining format. For malls, the share of casual dining as a percentage of all restaurants in malls was close to 35%. In terms of nationality, close to 70% of International casual dining restaurants are located in malls; while domestic operators dominate high streets.

CUISINE TYPES OF CASUAL DINING RESTAURANTS IN TOP THREE CITIES

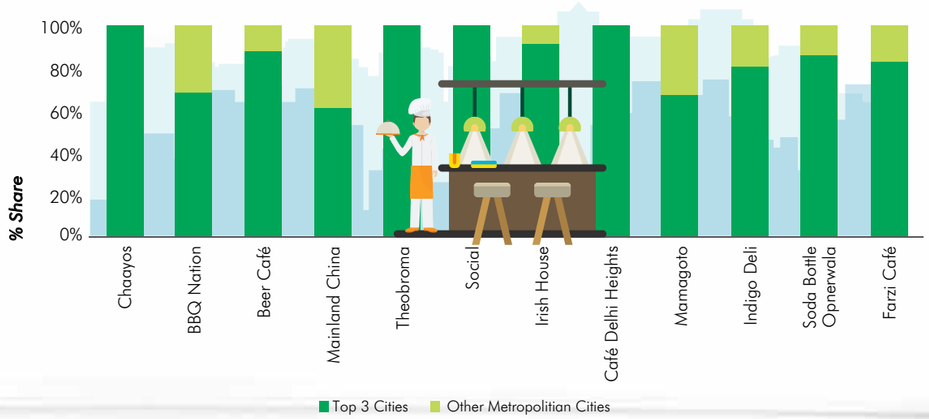


Source: CBRE Research, Q1 2018

Expanding Cuisine Types; dominated by the chain format

While Indian cuisine remained the dominant cuisine category even across casual dining restaurants, Asian cuisine emerged as another popular category for casual dining restaurants. In terms of operations; more than 60% of casual dining restaurants across the top three cities were a part of chains. However, the trend is divergent in Bangalore where almost 75% of restaurants were standalone/independent operators.

CITY-WISE SPLIT OF DOMESTIC RESTAURANTS



Source: CBRE Research, Q1 2018

Top three cities include NCR, Mumbai and Bangalore. Other metropolitan cities include Hyderabad, Chennai, Pune and Kolkata.

Emergence of homegrown operators

Only a few leading players have a multi-city presence, but now with the availability of funding and PE investments in the F&B business, operators have expanded their brands across cities. NCR and Mumbai are the cities that witness the most "cross expansion", with chains headquartered in either of the two cities expanding to the other city fairly quickly. Also, if we look beyond the top seven cities, in terms of domestic F&B operators these cities have a limited presence of chains and are largely dominated by standalone/ local operators. However, F&B operators can now consider these smaller cities as an expansion opportunity by offering global cuisines with the right local flavor.

Acceptance of a wider palette of cuisines

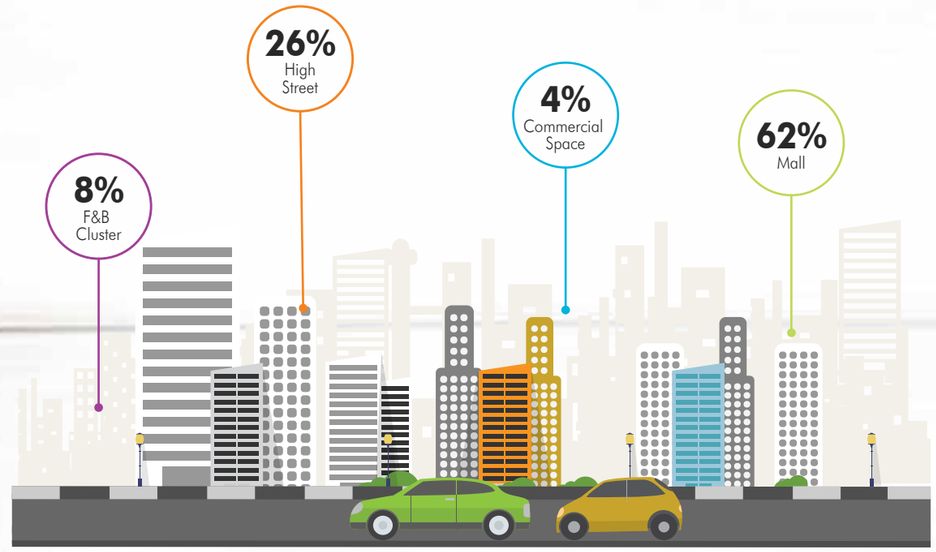
While Indian and regional cuisines still dominate the cuisine pie, the growing share of multi- cuisine restaurants reflects the acceptance and success of other cuisines as a part of the F&B culture in India. Also the fact that Asian (largely Chinese) and Italian cuisine restaurants are not a part of the "Other Cuisines" pie and are independent categories on their own is a precursor to the fact that India is becoming more receptive to world cuisines, resulting in a larger number of restaurants that offer such cuisines.

If we delve further, we notice that even the "other cuisines" category is fairly diverse with restaurants offering cuisines such as Mexican, Mediterranean, Lebanese and Arabian, amongst others. Another trend has been the emergence of fusion food – with restaurants lending a modern twist to traditional Indian cuisine. Also, regional cuisines have become more mainstay and there is an increasing trend of such restaurants being set up, and accepted in cities beyond their local regions/city of origin.

INTERNATIONAL VERSUS DOMESTIC OPERATORS

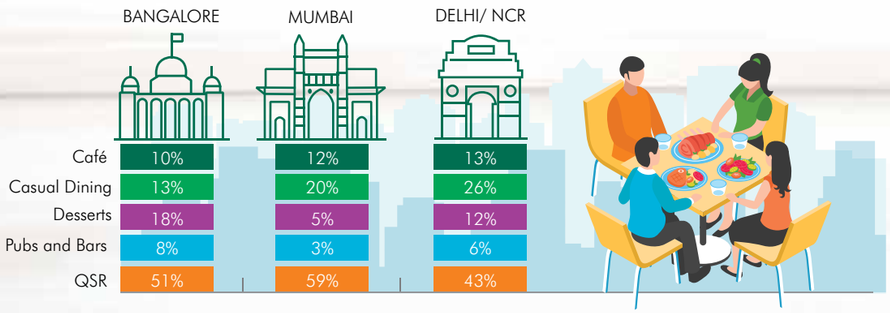
International Operators

LOCATION-WISE SPLIT OF INTERNATIONAL RESTAURANTS



Source: CBRE Research, Q1 2018

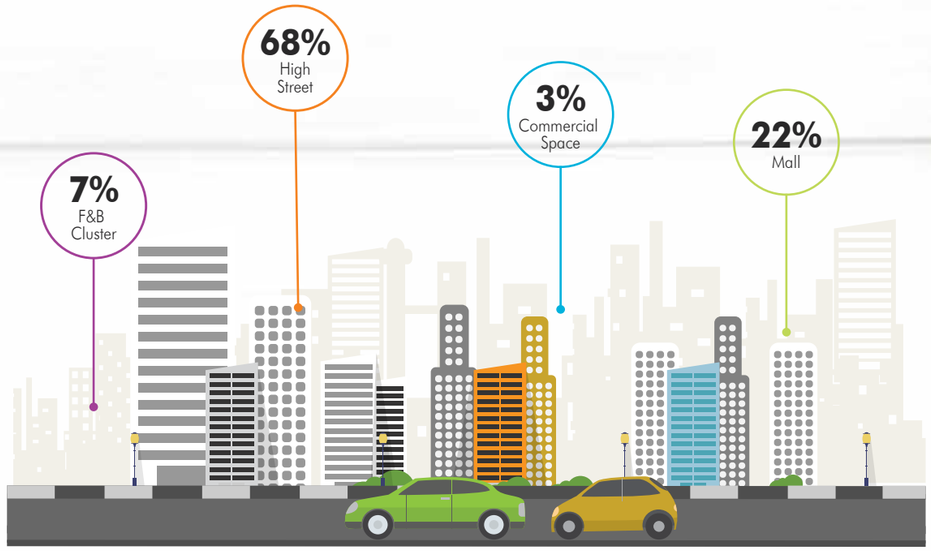
SPLIT OF RESTAURANTS IN TOP THREE CITIES AS PER FORMAT



Source: CBRE Research, Q1 2018

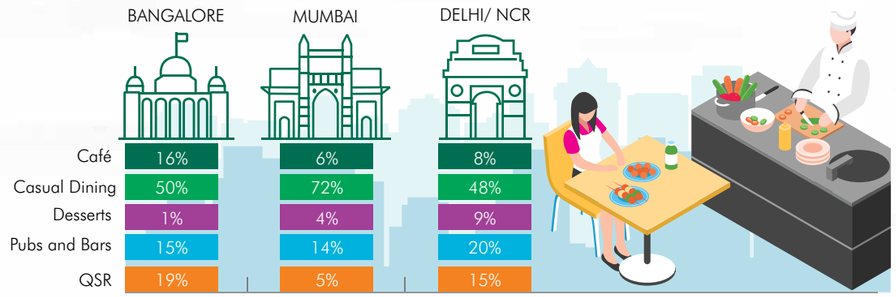
Domestic Operators

LOCATION-WISE SPLIT OF DOMESTIC RESTAURANTS



Source: CBRE Research, Q1 2018

SPLIT OF RESTAURANTS IN TOP THREE CITIES AS PER FORMAT



Source: CBRE Research, Q1 2018

It is evident that most international operators have displayed a preference to be located in malls – which can largely be because of the support facilities and quality of space these developments offer. In terms of categories, the café category has seen success from global operators that have a strong brand recall and an equally strong local connect. For instance, Starbucks entered India in October 2012 and within a span of five years, developed a network of more than 100 cafes across the country.

On the other hand, domestic operators are largely located on high streets and more than 60% of them operate as standalone restaurants. Also, while QSR has been a dominant category for international operators as of now, domestic operators can consider exploring casual dining as an option.

HOW HAS THE REAL ESTATE SECTOR RESPONDED?

Eating is the new shopping, malls allocating more space to F&B

Landlords have supported the growth of the F&B sector by allocating them more space within their developments. In fact, upcoming developments are paying significant attention to zoning for F&B restaurants and have dedicated floors for F&B, with attention paid to the impact of clustering. The below table highlights the key malls across Mumbai, NCR and Bangalore and the allocation that these malls have for F&B outlets:

	Key malls across cities	Approximate number of F&B Outlets in each mall	Percentage of F&B outlets to total number of outlets
Mumbai	Phoenix Market City Kurla, R City Mall, Infinity Mall	50-60	20-25%
Delhi/ NCR	Ambience Mall Gurgaon, Select City walk Delhi, Mall of India, Noida	50-75	22-26%
Bengaluru	Phoenix Market City, Whitefield, Mantri Square Mall, Brigade Orion	50-75	22-26%

Source: CBRE Research, Q1 2018

Temporary Set ups

To ensure that the vivacity of a development remains intact, landlords are becoming flexible about the usage of open spaces in their developments. Setting up of temporary units allows the newer operators to gauge response to their food while allowing the landlord to create short-term additional capacity during seasonal peaks. In fact, concepts such as a city's first food truck festival have been successful in pulling huge crowds to an otherwise moderately successful retail development.

Dedicated F&B hubs, clusters in residential areas

Dedicated food malls/hubs is a recent trend, but is a concept that has been embraced well. Developments such as Cyber Hub and Epicuria have a thriving F&B mix and are examples of developments that are functioning independently of traditional retail. Even established high-street F&B clusters are known for restaurants that are aligned with the needs of the consumer type usually associated with that high street. Many malls which have received a lukewarm response from traditional retail are reworking their leasing strategy to allow such developments to cater to the F&B requirements of the local catchment.

Allocation in commercial buildings

Landlords realize the impact F&B can have on occupier profile and rentals. Most landmark office buildings have made allocations towards F&B, not only as support retail; but by allocating premium ground floor spaces to these outlets. Landlords are also aligning the tenant profile with the type of F&B outlets, as restaurants in these buildings are no longer limited to take away/kiosks or QSRs, but are witnessing the inclusion of casual dining restaurants as well.

Key Office Buildings	Number of F&B Outlets	Dominant Category	Prominent Players
One Horizon Center, Gurgaon	10-15	Casual Dining, QSR	Café Tonino, Town Hall, Infinity Café, Starbucks, Delhi Club House
Manyata Tech Park, Bangalore	10-15	QSR	Wow Momo, Dunkin Donuts, Kobe Sizzlers, Subway
The Capital, Mumbai	8-10	Casual Dining	Capital Social, The Good Wife, Soda Bottle Openerwala

Source: CBRE Research, Q1 2018

RECOMMENDATIONS

Landlords

Flexible spaces

It is important that developments are designed to be flexible to allow for easier customization of spaces, thereby facilitating a quick change in tenant mix. Also, there needs to be flexibility around redeveloping or adding "food wings" that can allow properties to remain relevant for a longer time. Keeping certain open areas in and around a development also allows a development to introduce concepts such as pop up units, food events, temporary units – all of which can allow food joints to gauge consumer response to their food before taking-up space as a full-fledged restaurant.

Planning in advance

Planning for F&B should not be an afterthought but should be a pivotal part of the planning process of a shopping center, right from conception. Factors such as open areas (to allow for indoor and outdoor seating), electrical loads, drainage and sewage facilities should all be factored in to ensure seamless service provision to F&B operators.

Optimum mix of restaurants

It is critical for a landlord to understand the optimum mix, type and number of restaurants that can allow food operators to benefit from the "clustering effect". While creating a cluster of restaurants is beneficial, too much of it can be distracting and even cannibalizing. The right mix of restaurants as per cuisine and placement of restaurants with a "draw effect" is critical. Techniques such as placing a new but unique entrant next to the restaurant with the maximum draw effect can help attract attention to the operator that the developer wants.

Relevant to catchment

While this is slightly difficult to control on a high street, malls need to be reflective of the dominant consumer category of its catchment. For instance, if a mall is in a location with a strong evening and night time economy, then the development needs to have provisions to ensure that restaurants do not suffer because of the operating time of the development, as most restaurants in such developments would be operating late into the night. On the other hand, a development in the vicinity of offices is likely to have significant demand during weekday lunchtime. A development can also witness a change in catchment type during different times of the day. Therefore, its F&B mix and operator offerings needs to be in line with this dynamic consumer profile.

Allow for cross benefits

F&B as a retail segment has a significant impact on not only the development's attractiveness as a destination, but also on other retail categories such as fashion and apparel, whose footfalls are also impacted by how strong is the food experience of the development/high street. Not only this, globally, there have been instances of "hybrid" stores where apparel retailers have coffee shops integrated in their premises while some barber shops in the UK and US have an integrated bar. Such collaborative and cross beneficial stores can have a positive impact on lease renewals and allow landlords to secure higher rentals.

Collaborate with F&B operators

In order to be relevant to a larger audience, restaurants nowadays are trying to be innovative, have different cuisines and may even change categories during different times of the day. Since a clear segregation between operators is becoming increasingly difficult, developers need to follow a collaborative approach to understand an operator's business model and offerings, and then position it accordingly.

F&B Operators

Flexible format of operation

Not only do operators need to be flexible in terms of the store size as per location, they also need to be flexible in terms of their offerings as per the location and time of the day. While a doughnut store may operate as a take away unit on the ground floor of a mall and operate as a cafe on a high street; restaurants across formats can consider adopting menus that are dynamic enough to fit into different formats.

Satellite units, food trucks, pop up units

While having satellite units is still largely limited to operators in the QSR and dessert category, most full-service restaurants, especially domestic chains have refrained from having multiple units in the same development/high street. Having more than one restaurant in the same location can work for restaurants that are the "draw factor" in a particular location. Also, players can also try and mix up their operation format to maximize revenues while using the same kitchen – have one full service restaurant with another smaller kiosk/take away type serving the popular items on the menu. Another strategy can be the deployment of food trucks, which can not only act as a new advertisement in a new location daily, but can also quickly change their catchment area depending on the response.

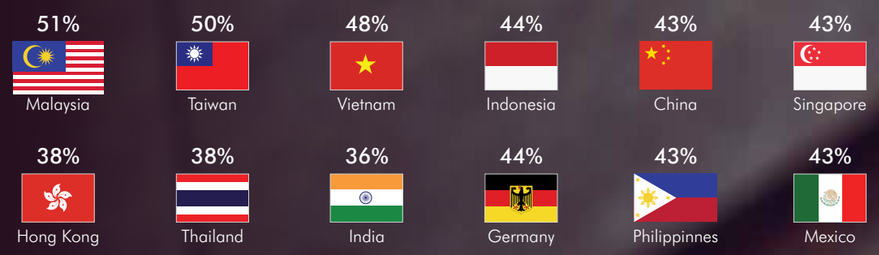
Tap the untapped

As per Nielsen's 2016 Report What's in Our Food and On our Mind, eating at street vendors is a category in which India is amongst the top ten countries; close to 36% of the respondents eat at street vendors. This presents a significant opportunity for formalization at the lower-end of the F&B revenue chain. Organized players, especially players that already operate in the quick eats category should try and tap this small ticket, but large volume segment.

Technology to their advantage

As malls move towards being lifestyle destinations, F&B due to its "non-online" nature is a segment that will play an increasingly pivotal role in delivering this lifestyle experience. Technology can play a significant role in enhancing this F&B experience by creating "photo worthy moments" and also by incorporating concepts such as virtual view of the restaurant at the mall entrance, real time updates on waiting time, screens displaying the food being prepared in the kitchen. Also, operators can leverage the increasingly popular way of ordering food -food delivery websites/apps, which not only assist in driving up per store revenue but also assist in building brand value due to the customer feedback on such apps.

DINING OUT AT STREET VENDORS, COUNTRIES EXCEEDING THE GLOBAL AVERAGE OF 27%



Source: Nielsen's Report " What's in our food and on our mind", August 2016

Experience driven interactions

Traditionally, leisure and shopping have been the drivers of shopper traffic, however this has been rapidly changing as food in itself has become an independent experience. There are increasing instances of food stores and restaurants operating as anchor tenants in key developments, with significant emphasis being laid on the ambience and quality of service . As there is increased onus of revenue generation on F&B operators, it is critical that restaurants engage more with customers by the way of interactions with the chef, personalized meals, loyalty benefits, all of which can bring a customer back to the restaurant.

Localize with the right influence

While Indians are experimenting with cuisines from across the world, Indian (and its numerous sub-cuisines) is still the most popular cuisine across our key cities. It is important that restaurants understand the taste buds of the city and the catchment that they are located in as hyperlocal is a trend that's not limited to e commerce, it is percolating to F&B also.

Coverage

The analysis for this report was undertaken across 1,260 restaurants across the following locations in NCR, Mumbai and Bangalore

	HIGH STREETS	MALLS	COMPOUNDED	OFFICE BUILDINGS
Mumbai	Colaba Causeway, Linking Rd	Oberoi Mall, R City Mall, High Street Phoenix, Viviana Mall, Inorbit Malad, Inorbit Vashi	Kamala Mills	BKC
Delhi/ NCR	Connaught Place, Khan Market, Hauz Khas, Sector 29 Gurgaon	Mall of India, Selectcity Walk, DLF Promenade, Ambience Mall Gurgaon, Ambience Mall Vasant Kunj	Epicuria, Cyber Hub	One Horizon Center
Bengaluru	Indira Nagar 100 ft & 80 ft Rd, Koramangala 80 ft, Lavelle Rd, St. Marks Road, Church St	Forum Koramangala, Orion Mall, Phoenix City, Celebration UB City, Mantri & VR Mall	UB City	RMZ Ecoworld and Manyata Tech Park

Source: CBRE Research, Q1 2018

Definitions

Quick Service Restaurants (QSRs)

Operators typically offer a standardized menu, with a fast turn-around delivery time. Ticket sizes are generally low with these mass-market, self-service, fast food restaurants catering to the general public.

Cafés

Operators generally offer coffee/tea and related beverages, with some type of bakery and small bites. These allow for a longer consumer stay as compared to QSRs, with a low-medium ticket size. This category would include all mass-market bakeries, confectionaries, coffee chains along with traditional cafés.

Casual Dine Restaurants (CDRs)

Operators offering comparatively good quality products available at a medium-high ticket size. While this category includes table-service restaurants offering an informal dining experience, they are considerably more formal as compared to cafés and QSRs.

Pubs and Lounges

Most establishments in this category include restaurants that serve alcoholic beverages along with an array of food options, with significant emphasis on the ambience. This category typically operates on a medium-high ticket size model.

Fine Dining Restaurants (FDRs)

These are full service restaurants with separate meal courses operating on high quality décor and formally themed ambience and specially trained staff. These operate on a high ticket size model.

Cuisines

Indian cuisines as mentioned in the report include North Indian as well as a multitude of regional cuisines such as South Indian, Coastal, Parsi and Rajasthani. European incudes cuisines such as Italian, French, Greek and Spanish. Asian cuisine includes Chinese, Japanese and Thai cuisines. Others includes categories such as Arabian, Lebanese, Mediterranean, Portuguese etc.

For more information about this regional major report, please contact:

RESEARCH

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