

Designs on expansion

The designer outlet sector has soared in both good times and bad, with schemes opening across Europe and a trio of conglomerates on the hunt for acquisitions. **Mark Faithfull** investigates



Gross sales at Bicester Village grew by 10% in 2014

DAN STEVENS PHOTOGRAPHY

Designer outlets have been the stand-out success among retail destinations in the post-crisis era and have captured the attention of major investors, long-haul travellers and big brands alike.

The core growth has come from those centres able to attract global brands and wealthy tourists. As a consequence, three major groups have emerged in recent months, intent on growing their portfolios and taking a firm grip on the European market, while a steady pipeline of enlarged and new schemes are coming online.

McArthurGlen – the longest-standing designer outlet operator in Europe – has developed the majority of its centres with investment

fund specialist TIAA Henderson Real Estate (THRE), but it entered into an agreement in 2013 to acquire, develop and operate designer outlets in Europe with Simon Property Group, the world's largest retail property owner.

“For us the big change is that we are actively looking for acquisitions, or to work with companies in operating their centres or in running joint ventures,” says Gary Bond, managing director for development at McArthurGlen.

“It’s a new growth channel for us and we are on the lookout for projects where we feel we can take them to the next level, especially those adjacent to city centres. I think inevitably our focus will be on the major western European markets. A great example is Plaza Mayor with Sonae Sierra [in Malaga], where we have entered

into a 50/50 joint venture and we’re opening a designer outlet adjacent to its full-price offer.”

This latest approach reflects both the new funding firepower to move quickly and frustration at the slow-moving planning in potentially lucrative nations such as Germany and France. “Planning is always slow for out-of-town schemes and while we have successfully developed in those markets, our emphasis is shifting towards ‘achievable locations’ where we have agreement with the city authorities,” admits Bond. “Often that means schemes very close to cities, which is the opposite from years back when designer outlets were seen as a rival to town centres. Now many authorities can see that they can work together.”

In September last year, Dutch pension fund manager APG joined shopping centre owner Hammerson, Value Retail and Meyer Bergman in a joint venture that is also on the hunt for outlet centres with growth potential across Europe. Value Retail chief executive Scott Malkin says gross sales across Value Retail Villages in Europe increased by 11.4% in 2014 to €2.15bn (£1.58bn), while gross sales at Bicester Village grew by 10%.

“In late 2014 we opened La Roca Village near Barcelona, we also have an extension under construction in Kildare, adding 45 units,” says Malkin. “In fact, Dublin has performed better per square foot than any designer outlet in ↘

The Style Outlets is due to open in Viladecans, near Barcelona, in 2016





Europe: What's opening and where



UK

McArthurGlen is extending in Swindon this year and Ashford in 2016. Value Retail is expanding its Bicester Village scheme, with completion in 2016/17, and Kildare in Ireland. The new Resorts World outlet will open alongside the NEC near Birmingham this spring, operated by Realm and funded by Genting.



Germany

McArthurGlen is starting work at Remscheid (Cologne/Düsseldorf) next year for opening in 2017 and recently opened a 75,350 sq ft extension at Neumünster, near Hamburg. Neinver plans to develop Werl the Style Outlets in the North Rhine-Westphalia region, with 183,000 sq ft of leasable space and 80 to 100 shops.



Italy

McArthurGlen is extending mega-outlet Serravalle near Milan by 118,400 sq ft this year, opening in 2016, and adding 64,500 sq ft to Noventa di Piave, also due to complete in 2016. A 80,700 sq ft extension to La Reggia, Naples, will open in 2017.



France

McArthurGlen is starting work at Marseille this year with the first 269,000 sq ft phase opening in 2016.



Spain

In a joint venture with Sonae Sierra, McArthurGlen will start on site in Malaga in 2016, with completion of the 323,000 sq ft scheme in 2017. Neinver will open the 285,200 sq ft Viladecans the Style Outlets near Barcelona next year.

Selected other pipeline schemes

McArthurGlen: Ghent (2017); Istanbul (European side, 2016; Asian side, 2016). Extensions: Roermond (2016); Parndorf (2016).

Neinver: Amsterdam the Style Outlets, two phases (2017).

Resolution: Phase two of Rosada Fashion Outlet in Roosendaal (2016) (pictured top right).

East Finland Real Estate: Zsar Outlet Village (2016).

The Prague Outlet: First phase, 2015 (pictured top left).

Fashion House: St Petersburg.

the UK other than Bicester Village. We have also had planning approved for additional units at Bicester Village, which will open in 2016/17."

So just why have designer outlets performed so strongly? Firstly, it is worth pointing out that such robust figures are not common across all of the factory outlets in Europe, with polarisation between primary, strong secondary and the rest seeing a number of weaker centres wither on the vine. However, the stronger centres have capitalised on such factors as discounted pricing, appealing environments and free parking, and that in turn has enabled them to repel the advance of ecommerce too.

"It's hard to say how the internet has impacted because frankly it has performed so strongly in recent years that we certainly can't see any ill effects," reflects Andrew Rich, director of outlet malls at THREE.

"Would we have done even better? Who knows? However, luxury brands are generally

very protective of their brand integrity and that's much easier to achieve in high-quality environments than it is online."

Strategic partnerships

At the start of 2015, Spanish group Neinver and THREE formed a strategic partnership to create a leading designer outlet platform in Europe. The joint venture will invest in a number of outlet



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Andrew Rich, TIAA Henderson Real Estate

malls, focusing initially on Neinver's existing portfolio and development pipeline.

Rich says: "In many ways designer outlets were already ahead of the curve because the better ones specialised in high-quality environments, free parking, good leisure and value. The new ones are only getting better, with the recently opened extension at Neumünster near Hamburg an example of a scheme which has really moved things on again."

Going forward, the increase in heavyweight financial investment will be focused on those centres well placed to capitalise on international travellers. For Malkin there are three key drivers impacting Europe: the economy; the globalisation of retail; and the internet. "These are, in effect the short, medium and long-term challenges," he says.

"On the first, designer outlets have done well because typically they appeal to international travellers, who have often spent considerable money before they get to us," says Malkin. "So that means they might be searching for value for money but not necessarily purely for cost savings. Of course travel retail has its own vagaries because, for example, the number of Russian visitors has been significantly down over the past 12 months.

"In terms of globalising brands, whether through licensees or their own stores, this continues to be a complex issue for companies and designer outlets have provided them with a great way of not only selling stock through high-quality environments, but also introducing the brands to customers who may migrate to full price," he adds.

Bond and Rich agree, and note that there is not a broad continental brand and retail strategy towards designer outlets, albeit that the market is far better understood by the major brands these days. "I don't think that there are many retailers or brands which are looking at a pan-European platform from the designer outlet operators. They tend now to be very specific about what they are looking for, which means they'll come and say we want two stores, one in this scheme and one in that," says Rich.

Bond maintains this trend will continue and predicts that the brands looking at their outlet strategies will not change their expansion plans dramatically in 2015. "However, we are seeing them become increasingly understanding about how the channel works and very precise in their requirements," he says.

As for the future, Malkin believes Europe's prime tourism locations are covered and while there are some specific opportunities they are limited. "Rather, I think we'll see more consolidation in ownership as the funds and institutional investors have clearly demonstrated their belief that designer outlets are a blue-chip property investment," he concludes.