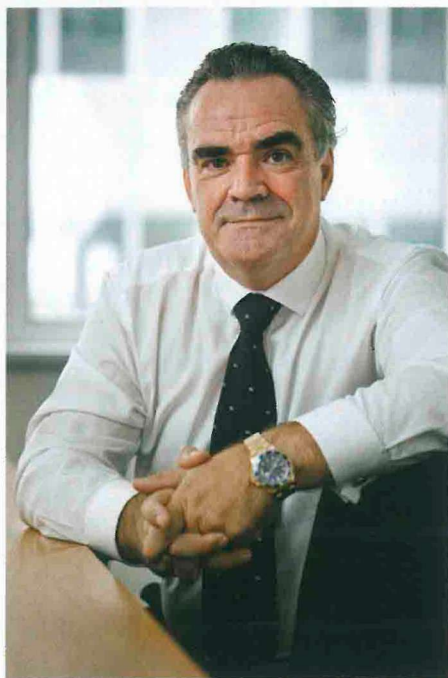




Gloucester Quays, UK



European Outlets – The Industry Invariably Worth Investing In

THERE HAS BEEN HUGE INTEREST IN EUROPEAN OUTLETS IN RECENT YEARS. THE INCREASING POPULARITY OF THIS TYPE OF PROPERTY AMONG RETAILERS AND CUSTOMERS HAS A LONG-STANDING, POSITIVE INFLUENCE ON THE INDUSTRY. HERE, BRENDON O'REILLY EXAMINES THE EXPANSION OF OUTLET SPACE IN EUROPE AND THE REASONS BEHIND IT.

We have been observing a huge interest in European outlets. For the last years outlet space in Europe has grown twice as fast as in shopping centres.

There is research data, for example the one revealed in 2016 by Cushman & Wakefield, showing that European outlets had experienced around eight per cent annual sales growth over the past three years. From my experience, in the markets in Central and Eastern Europe and Russia, the outlets' KPI are even more spectacular. Schemes located in the region notice even double digit growth on sales, sales density, average transaction value or footfall year-on-year.

The aforementioned factors mean that outlets are undoubtedly valuable retail property assets for investors who are aware that they

can expect to gain substantial ROI. This is an ascending trend, to be continued in upcoming years.

Nevertheless, as highlighted in the latest ecostra's "Outlet Centres in Europe" study, outlets do not guarantee economic success automatically. It is absolutely right. Every potential investor, if he is not experienced in the outlet industry, needs to think of a knowledgeable and trusted business partner to secure the schemes' success. Everyone needs to consider the outlet location and size, tenant mix, management and... technological advancement.

A proper scheme located in the right place

We can find different outlet concepts across Europe, with a variety of sizes, locations and design. It is good for the industry that developers

Fashion House Moscow, Russia



have unique ideas. However, there are some recommendations for the outlet business, based on the long-term experience, explaining what really works and what doesn't work.

First and foremost, the size is a key. Outlet centres with at least a dozen or so thousand square metres of retail GLA, offering a wide range of brands, definitely perform better than small sized schemes. They are always much more profitable both for the property owners and every single tenant leasing a unit inside.

Outlets are usually located outside the city centres – on the lands with a great road infrastructure, in proximity of highways, ring roads and traditional interurban or tourist routes. Some developers, especially in Western Europe (Germany, the Netherlands or France), implement outlet concepts in a city downtown area. Nevertheless, for today, this is rather an interesting option, not a trend that will shape the industry globally.

One point will remain unchanged – catchment's major importance. The profitable outlet can successfully serve about 3 million customers. For example, the Moscow's area in Russia, with 12 million people living in the city and up to 6 million within the city district, can absorb up to six outlet centres.

High time for luxury?

There are two ways of building the proper tenant mix – basing on mass-market brands or going into a well-balanced combination of popular and premium, luxury offer. Which way to choose?

We have very optimistic predictions for luxury brands globally. Analysts by Exane BNP Paribas forecast the significant luxury market growth of more than 5 per cent in the first half of 2017. However, such prognoses are connected i.e. with the buying power of Chinese people or taxes in the United States. Some experts could still ask a question what will directly happen to luxury sales in Europe.

In my opinion, Central and Eastern Europe and Russia are the markets where premium offer in outlets is absolutely desirable.

Recent reports, including the paper by Euromonitor International, state e.g. that Russian consumers do not change their consumption habits. As in previous years, they tend to purchase their favourite luxury brands. The expected recovery of Russia's economy in 2017 may even strengthen this tendency.

The highest standards of outlet management

Proper outlet centre's management doesn't only mean simple facility management. Industry experts are 100 per cent sure here. If an outlet centre has to be profitable for all parties – investors, owners and tenants – as well as appreciated by customers, it must be managed by a specialised operator, with a proven track record in the industry. The best recognised operators in Europe are companies running at least several outlets across different countries for many years. They are aware that the outlet business is a totally different one from the shopping centres' business. They build teams of people with different competences and responsibilities – design, finance, administration, retail operations, marketing and facility management. There is a bright future for the experienced outlet operators.

The omnichannel era

In the retail world, including outlet centres, there are significant technological changes. Brick-and-mortar outlet centres are gaining new roles and services. Modern customers strongly require convenient online shopping options, with special offers and discounts adjusted to their needs. This is an amazing possibility to combine offline and online operations in one seamless shopping experience. However, it is not about the 'gadgets' in customer's hands. Outlet operators must take care of the customer's personal experience, as that will always matter the most. Using all data available, collected via websites, mobile apps, instore trackers or any other sources, the industry has to prepare better personalised offers for shoppers. The future belongs to buildings and implementing comprehensive omnichannel strategies.