ICSC European Outlet Conference

Outlet Expansion: Generating Profit from New Territories

13-14 June 2013

Radisson Blu Hotel Hamburg Airport, Hamburg, Germany

ICSC European Outlet Conference

Can development activity continue at pace for the foreseeable future?

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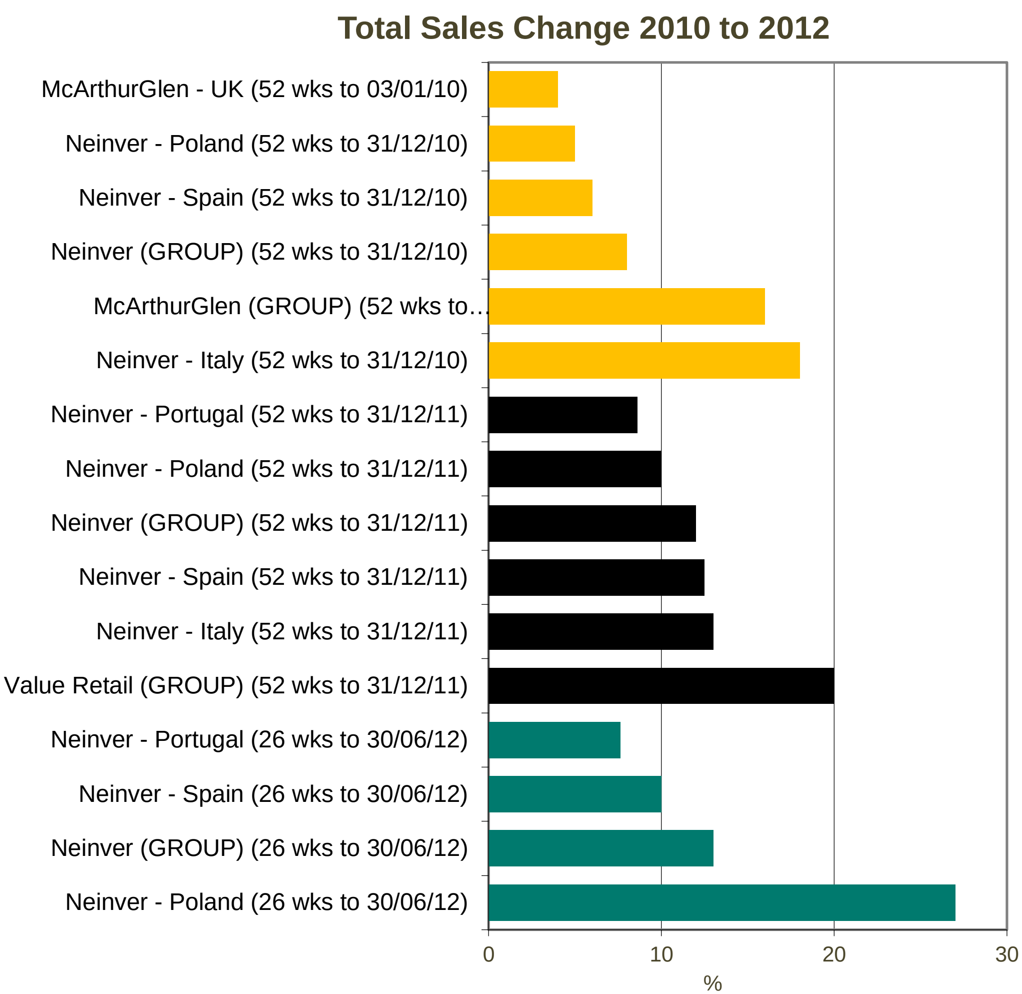
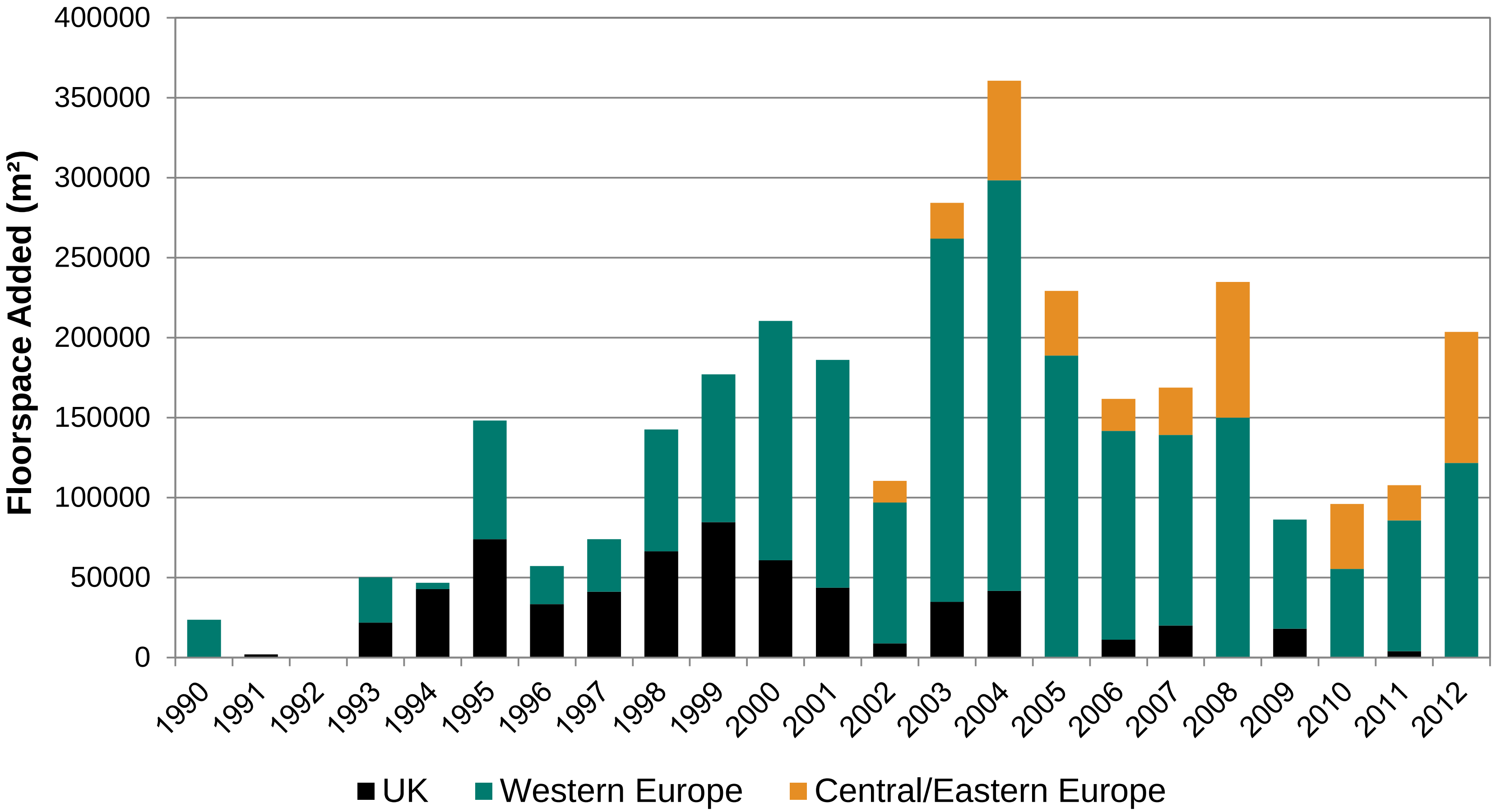
Recent Sales Growth

- Since 2010, sales growth, at outlet centres, has substantially outperformed the European non-food retail industry average (0.3% overall)



Source: FSP

Historic Expansion



Source: FSP

Recent Openings

Country	Location	Name	Year	GLA (sqm)	Format	FSP Type
Poland	Warsaw	Factory Annopol	2013	19,700	Outlet Mall	Large - Midscale
Russia	Moscow	Vnukovo Outlet Village	2013	26,250	Outlet Village	Large - Midscale
France	Roppenheim	Style Outlets - Roppenheim	2012	27,280	Outlet Village	Large - Upscale
Poland	Lodz	Ptak Outlet	2012	27,000	Factory Outlet	Large - Midscale
Russia	Moscow	Belaya Dacha Outlet Village	2012	25,000	Outlet Village	Large - Upscale
Italy	Eboli	Cilento Outlet Village	2012	25,000	Outlet Village	Large - Upscale
Germany	Neumunster	McArthurGlen - Neumünster	2012	20,000	Outlet Village	Large - Upscale
Sweden	Malmo	Outlet Skåne	2012	15,000	Outlet Mall	Medium - Upscale
Serbia	Belgrade	Fashion Park - Belgrade	2012	15,000	Outlet Village	Medium - Midscale
Poland	Szczecin	Szczecin Outlet Park	2012	15,000	Outlet Park	Medium - Midscale
Germany	Soltau	Soltau Designer Outlet	2012	13,000	Outlet Village	Medium - Upscale
Germany	Wadgassen	Myland Outlet Center	2012	12,300	Outlet Village	Medium - Midscale
Austria	Parndorf	Parndorf Villagio	2012	9,000	Outlet Park	Medium - Upscale

Source: FSP

Current Position

- 205 outlet centres[1]
- Total GLA 3.3million m^2
- Turnover of €10.8bn
- 184 are over 5,000m^2
- 145 are over 10,000m^2
- 66 are over 20,000m^2
- Excluding Russia, 70% of the European population (controlling 73% of total purchasing power) lives within 90 minutes' drive of an outlet centre

Source: FSP

[1] Turkey is considered to be separate from the core European market, and is not included in this review

Planned 2013/2014 Openings

Country	Location	Name	Year	GLA (sqm)	Country	Location	Name	Year	GLA (sqm)
Russia	Moscow	Fashion House Moscow	2013	28,600	France	Le Havre	Honfleur The Style Outlets	2014	18,000
Ukraine	Kiev	Manufactura Outlet	2013	25,000	Russia	Yekaterinburg	Fashion House Yekaterinburg	2014	18,000
France	Paris	One Nation Paris	2013	20,000	Denmark	Copenhagen	Copenhagen Designer Outlets	2014	17,500
UK	London	London Designer Outlet	2013	16,000	Germany	Leipzig	Fashion Outlet Leipzig	2014	17,500
Slovakia	Bratislava	One Fashion Outlet	2013	15,000	France	Paris	Carré Privé Ouest	2014	16,000
Germany	Bad Munstereifel	Eifel City Outlet	2013	12,000	UK	Solihull	Resorts World at the NEC	2014	14,362
Germany	Dusseldorf	Duisburg Outlet Village	2014	26,000	Italy	Ferrara	Occhiobello Outlet Village	2014	12,840
France	Bordeaux	Aquitane Village	2014	25,000	Germany	Koblenz	Montabaur Fashion Outlet	2014	12,000
France	Bellegarde	Le Village des Alpes	2014	25,000	Estonia	Tallinn	Tallinn Outlet	2014	11,500
Denmark	Kolding	Holmstaden	2014	23,000	Poland	Lublin	City Outlet Lublin	2014	11,500
Italy	Brugnato	Freeport Brugnato	2014	22,000	Finland	Oulu	Nordlett Outlet Centre	2014	10,000
Russia	St Petersburg	Fashion House St Petersburg	2014	20,260					

Source: FSP

Planned 2013/2014 Openings

- 23 new outlet centres
- Total GLA 417,000m^2
- Lead by France, Germany and Russia (57% of new space)
- Including
  - Eifel City
  - Fashion House Moscow
  - London Designer Outlet
  - Manufactura Kiev
  - One Fashion Outlet
  - One Nation Paris
- With more to come in established markets such as France, Italy and the UK in 2015

Source: FSP

Top Outlet Centre Occupiers

Source: FSP

Top 25 Occupiers

Retailer	Country of Origin	Merchandise Category	FISH	Price Position	# Outlet Stores	# in UK	# in Western Europe	# in CEE
Nike	USA	Leisure Goods	YI	Upper Middle	111	26	67	18
Levi Strauss & Co	USA	Clothing & Footwear	FS	Middle	87	10	65	12
Calvin Klein	USA	Clothing & Footwear	AI	Upper Middle	73	7	61	5
Puma	Germany	Leisure Goods	AS	Middle	69	3	47	19
Adidas	Germany	Leisure Goods	FS	Middle	68	12	36	20
Desigual	Spain	Clothing & Footwear	YI	Upper Middle	55	1	51	3
Home & Cook	France	Household Goods	0	Middle	54	4	43	7
Tommy Hilfiger	USA	Clothing & Footwear	AI	Upper Middle	53	5	38	10
Reebok	United Kingdom	Leisure Goods	AS	Middle	52	9	28	15
Lacoste	France	Clothing & Footwear	FS	Upper Middle	52	8	35	9
Calvin Klein Underwear	USA	Clothing & Footwear	AI	Upper Middle	48	10	38	0
Tom Tailor	Germany	Clothing & Footwear	FS	Upper Middle	47	2	32	13
Timberland	USA	Clothing & Footwear	AI	Upper Middle	43	8	30	5
Guess	USA	Clothing & Footwear	AF	Upper Middle	43	3	36	4
Mango	Spain	Clothing & Footwear	AI	Middle	42	1	28	13
United Colors of Benetton	Italy	Clothing & Footwear	AS	Middle	42	2	31	9
Lindt	Switzerland	Food	0	Upper Middle	42	2	37	3
Samsonite	USA	Personal Goods	AS	Upper Middle	41	6	32	3
Gant	USA	Clothing & Footwear	CI	Upper Middle	39	2	31	6
Le Creuset	France	Household Goods	AI	Upper Middle	39	13	25	1
Clarks	United Kingdom	Clothing & Footwear	FS	Middle	37	23	14	0
Hugo Boss	Germany	Clothing & Footwear	AI	Luxury	37	4	33	0
Diesel	Italy	Clothing & Footwear	AI	Upper Middle	36	2	30	4
Marks & Spencer	United Kingdom	Clothing & Footwear	FS	Middle	36	34	0	2
Geox	Italy	Clothing & Footwear	AI	Upper Middle	36	0	27	9

Source: FSP

Top 25 Luxury/Premium Occupiers

Retailer	Country of Origin	Merchandise Category	FISH	Price Position	# Outlet Stores	# in UK	# in Western Europe	# in CEE
Hugo Boss	Germany	Menswear	AI	Luxury	37	4	33	
Baldinini	Italy	Footwear	AS	Premium	24		23	1
Jerem	France	Menswear	FS	Premium	23		22	1
Polo Ralph Lauren	USA	Womenswear	AS	Premium	23	7	16	
Escada	Germany	Womenswear	AF	Luxury	22	1	21	
Burberry	United Kingdom	Menswear	AF	Luxury	19	5	14	
Bassetti	Italy	Textiles & Furnishings		Premium	16		16	
Armani	Italy	Menswear	AF	Luxury	15	2	13	
Furla	Italy	Handbags/Luggage	AF	Premium	15	1	13	1
La Perla	Italy	Womenswear	AF	Luxury	15	1	14	
Frette	Italy	Textiles & Furnishings	AI	Luxury	14		14	
Pollini	Italy	Footwear	AS	Premium	14		14	
Versace	Italy	Womenswear	AF	Luxury	14	1	13	
Basler	Germany	Womenswear	CI	Premium	13	2	11	
Guru	Italy	Womenswear	YF	Premium	13		12	1
Gattinoni	Italy	Womenswear	AI	Premium	12		12	
Kathy Van Zeeland	USA	Handbags/Luggage	YF	Premium	12	1	11	
Michael Kors	USA	Womenswear	CI	Premium	12	2	10	
Bally	Switzerland	Footwear	CI	Luxury	11	1	10	
Bayard	Switzerland	Menswear	AI	Premium	11		11	
Pull Love	Italy	Womenswear	CS	Premium	11		11	
Valentino	Italy	Womenswear	AI	Luxury	11	1	10	
Bose	USA	Brown Goods	AI	Premium	10	7	3	
Rene Lezard	Germany	Womenswear	AI	Premium	10		10	
Prada	Italy	Womenswear	AF	Luxury	9	1	8	

Source: FSP

Occupier Summary

FSP's European Outlet Centre Database comprises 13,000 shops

5,000 occupiers equate to an average portfolio of less than 3 stores

- Only 10 occupiers have more than 50 stores – Nike, Calvin Klein, Levis, Adidas, Puma, Tommy Hilfiger, Desigual, Home & Cook, Reebok and Lacoste
- Only 68 occupiers have more than 20 stores
- 200 occupiers have more than 10 stores

In Western Europe, Luxury/Premium brands play an important role in defining the consumer proposition

- Only Hugo Boss, Polo Ralph Lauren, Baldinini, Jerem, Escada and Burberry have more than 20 outlets
- Only 29 Luxury/Premium brands have more than 10 outlets

In Central Europe outlet, the offer is more Mid Scale

- There are only 20 Luxury/Premium brands present in CEE Countries and only 2 (Bytom and Wittchen) have more than 5 outlets
- 86 brands have widespread coverage in both Western and Central Europe. These include Lee Wrangler, Ecco, Mango, Converse, Tommy Hilfiger and Geox

What does this Expansion Mean?

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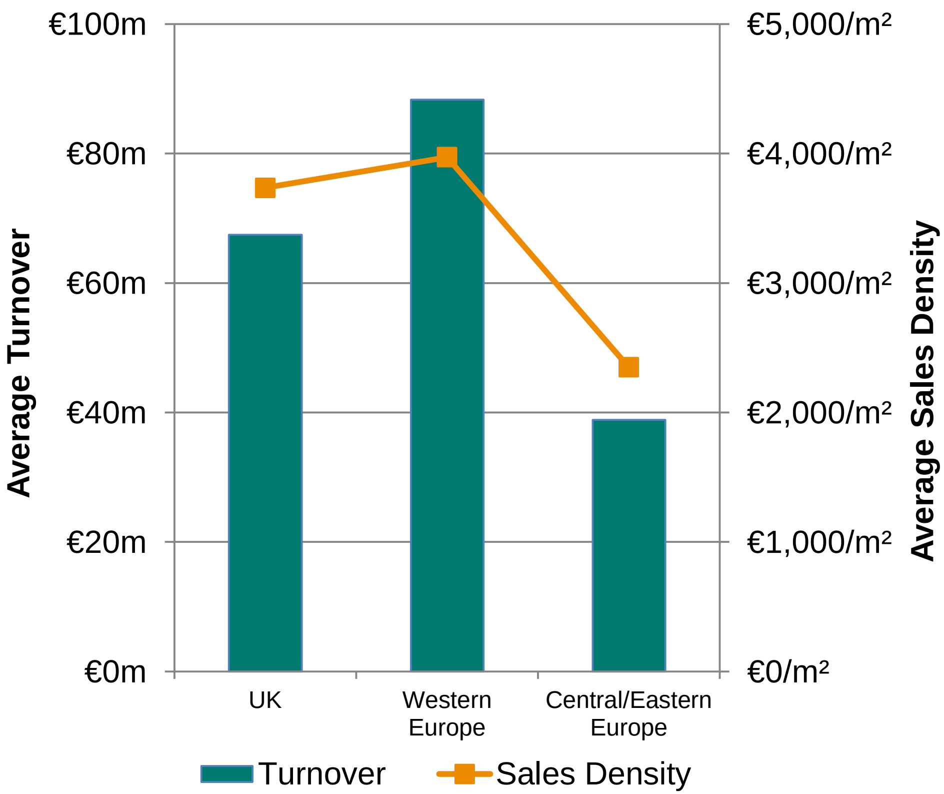
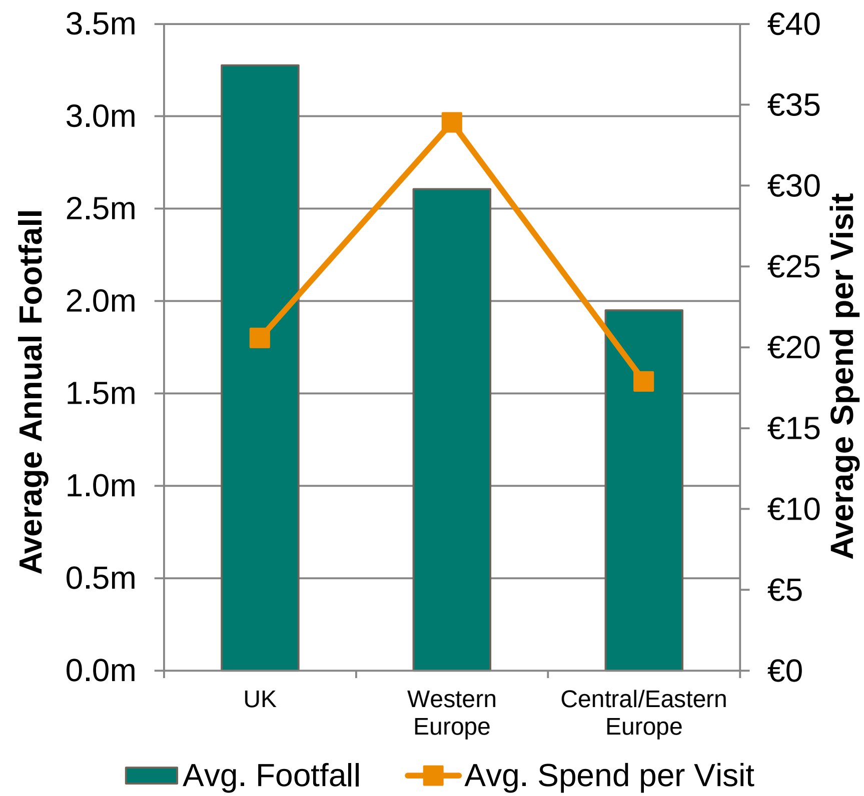
Regional Variations in Trading Performance





Source: FSP

Distinctive Market Positions Have Emerged

Luxury Centres

e.g. Bicester Village, Oxford; Foxtown Mendrisio; La Vallee, Paris; McArthurGlen Serravalle)

- UK/Western Europe
- Significant Luxury/Upscale
- Focusing on *Assured* fashion
- Strong mix of international brands, which appeal to both affluent shoppers and international tourists

Upscale Centres

(e.g. Batavia Stadt; Style Outlets Roppenheim; Gunwharf Quays, Portsmouth)

- UK/Western Europe
- Fewer Luxury/Premium
- more Midscale brands
- *Assured* emphasis with stronger *Family* offer
- Broader retail mix – more home and leisure goods
- Draws affluent shoppers and domestic tourists

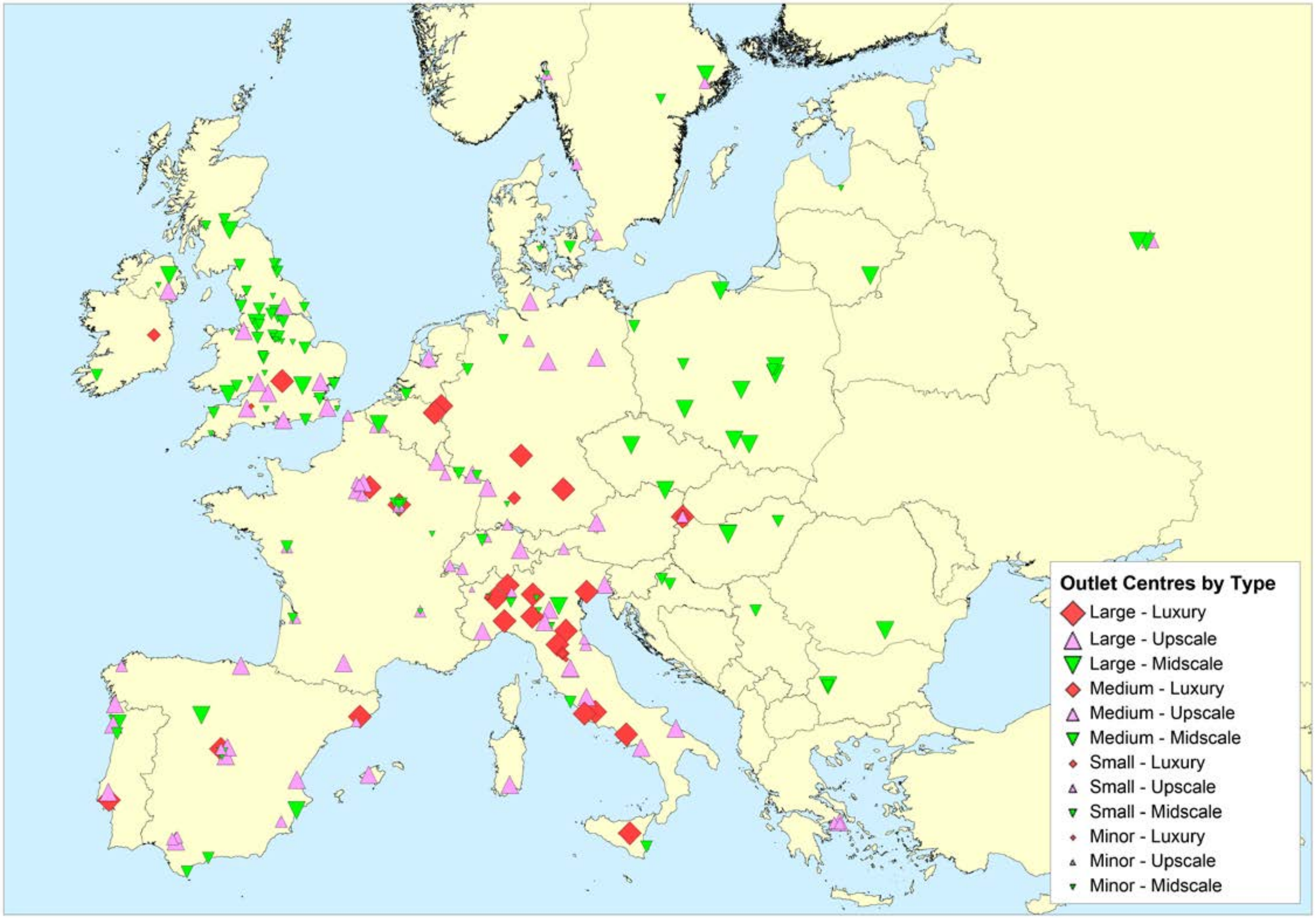
Midscale Centres

(e.g. Fashion House Warsaw; Fashion Arena Prague; Premier Outlets Center, Budapest)

- UK/CEE Countries
- Balanced fashion offer
- strong representation of midscale and sports brands
- Lacks Luxury/Premium brands
- Draws midscale shoppers, particularly families

Source: FSP

Regional Retail Mix



Source: FSP

Customer Feedback is increasingly mixed

It's very welcoming. At the till people say 'Hi'. It's a human size and convivial. The people there are terribly helpful and you feel looked after without being harassed. AND there is the commercial centre there too so you can go and warm up if it gets too cold in Winter!
(Female 45-55 young child)

It's nothing like McArthurGlen. It's just four dull buildings with discount brands. But not somewhere you'd go for pleasure
(Female 25-34, no children)

It makes you feel a bit more human. More as though they are interested in 'me' and not just selling their goods. It's the fact that they have clearly thought about how to make the customer feel good in their environment
(Female, 45-55, no children at home)

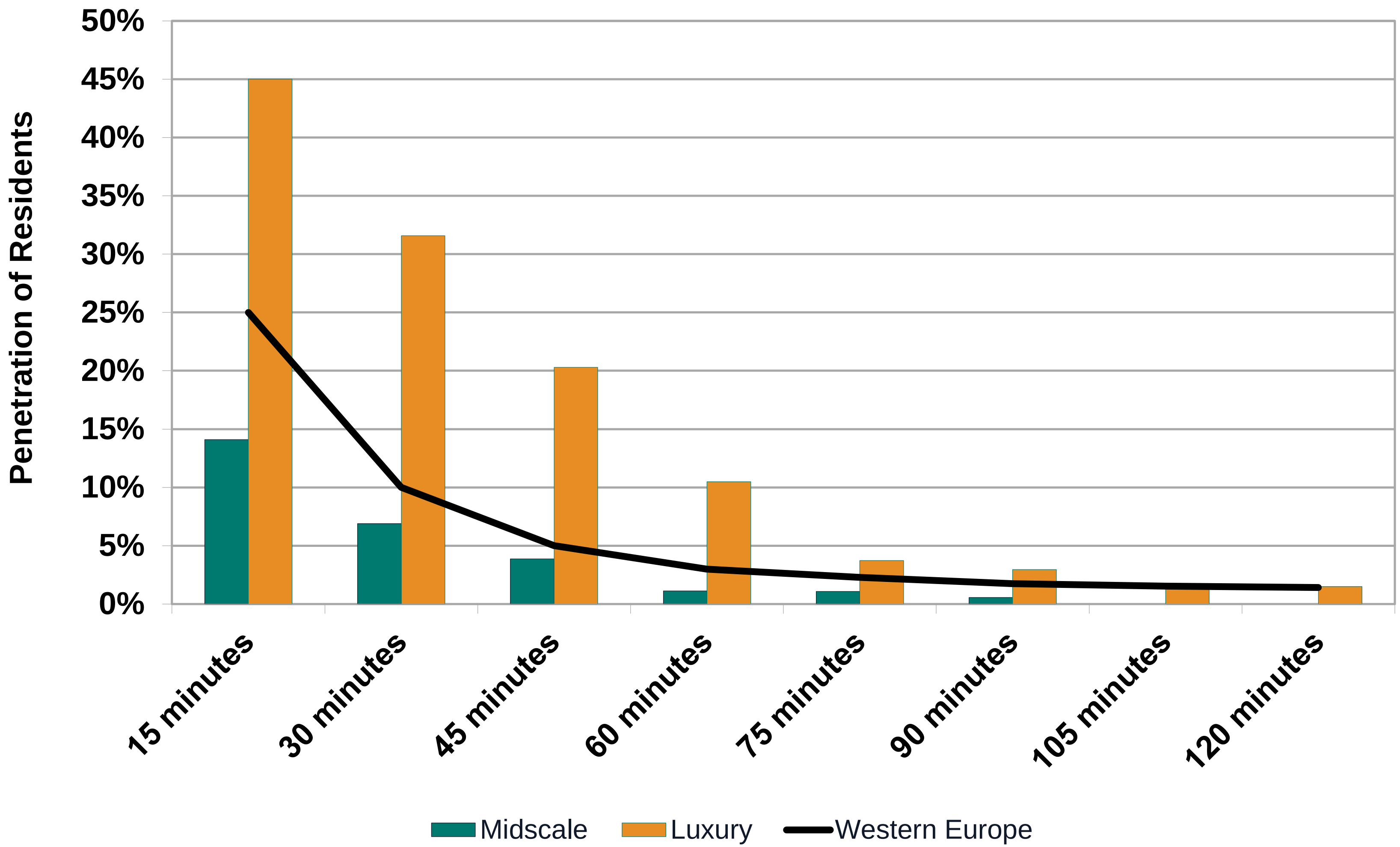
I went there fairly recently and frankly I was disappointed. I can get the same items at the same price in the sales here and I don't have to travel that distance. So there really is no incentive for me to go any more
(Female, 35-44, no children)

I absolutely loathe that place
(Female, 35-44, older children)

It is just a great day out. Either with the children or with friends. Plenty of shops, plenty of variety. The certainty that there will be things of interest – all in a pleasant environment!
(Female, 35-44, older children)

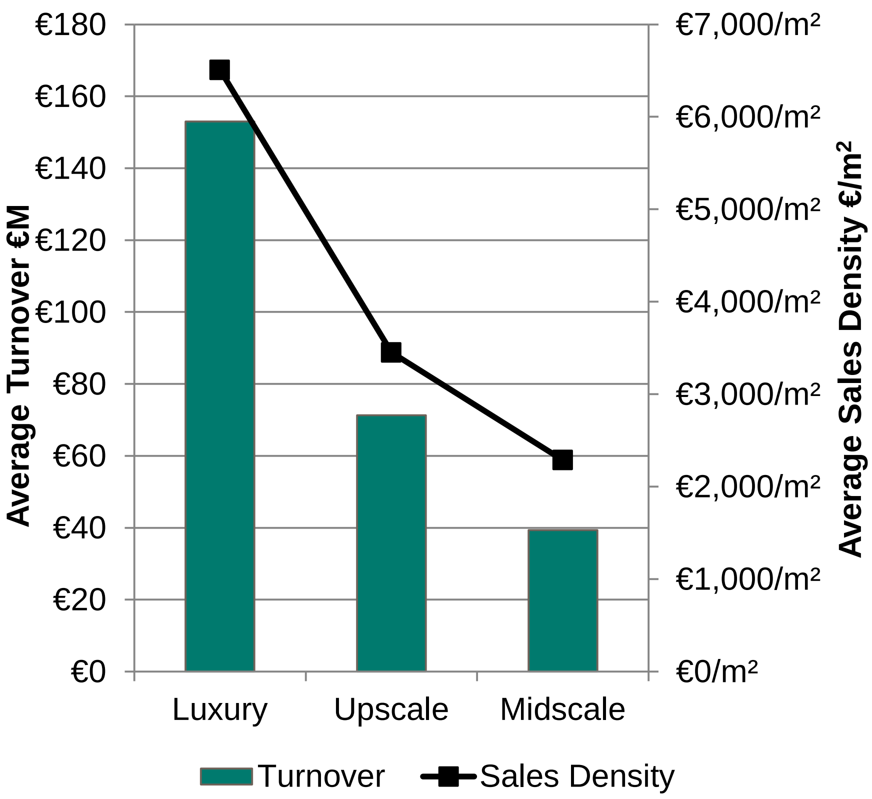
There are some brands there that just don't look or feel the right style or quality. It makes me wonder just what their stock is.
(Female, 25-34, no children)

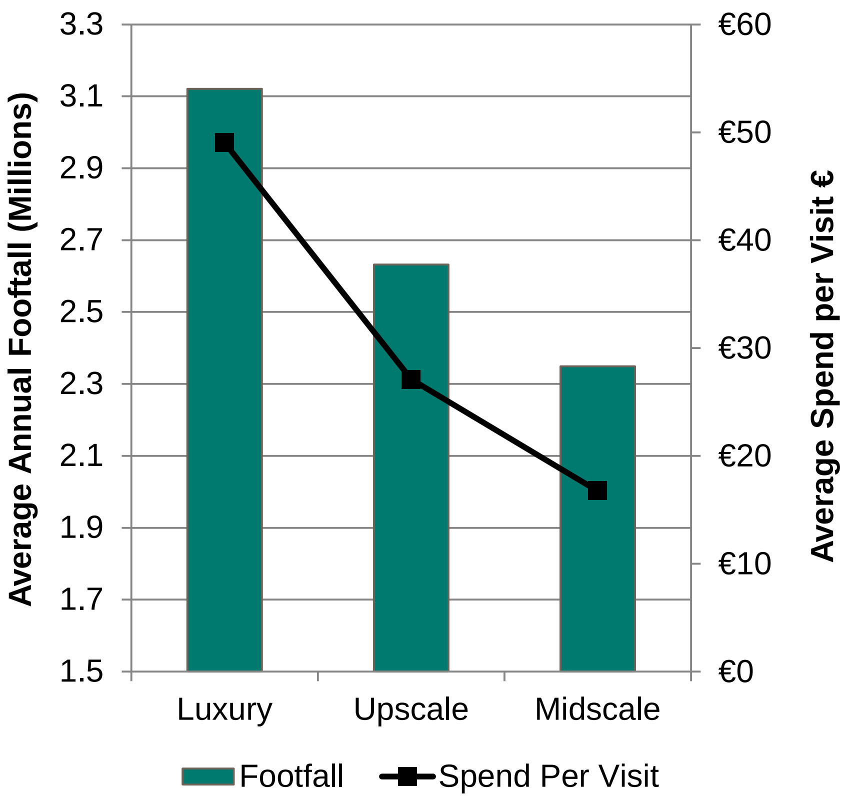
Catchments are Shortening



Source: FSP

Clear Differences in Trading Performance





Source: FSP

Challenges to Growth

Good schemes continue to go from strength to strength, however:

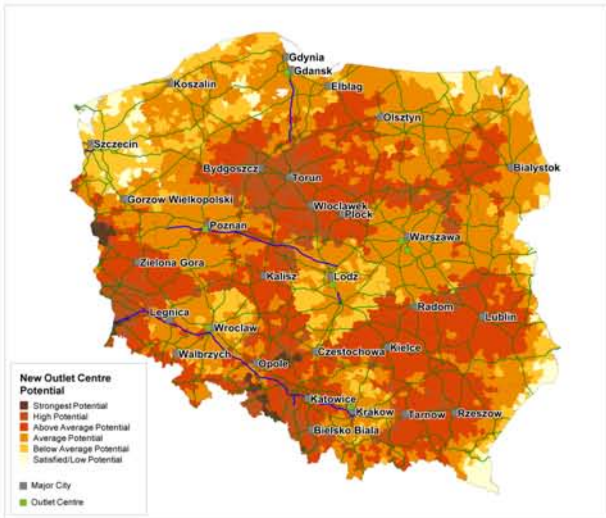
- Expansion has outstripped demand from upscale brands
- The product is becoming increasingly ‘familiar’
- There is a lack of differentiation between midscale outlet centres and discount high streets/town centres in the minds of consumers
- A number of recent schemes have not achieved their potential
- Growth at ‘poorly managed’ outlet centres has stalled
- Some first generation schemes have become casualties
- 4 schemes closed in 2012: Les Herbiers, Hermsdorf, Verviers and Rathdowney

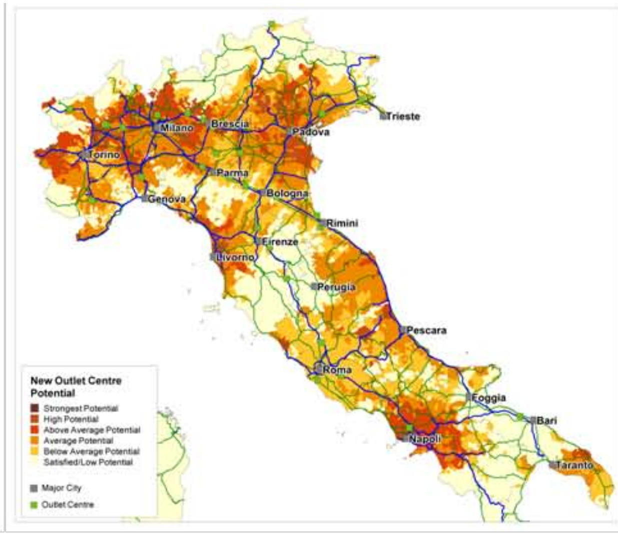
- However, under performing schemes are attracting a new generation of investors and ‘entrepreneurial’ asset managers

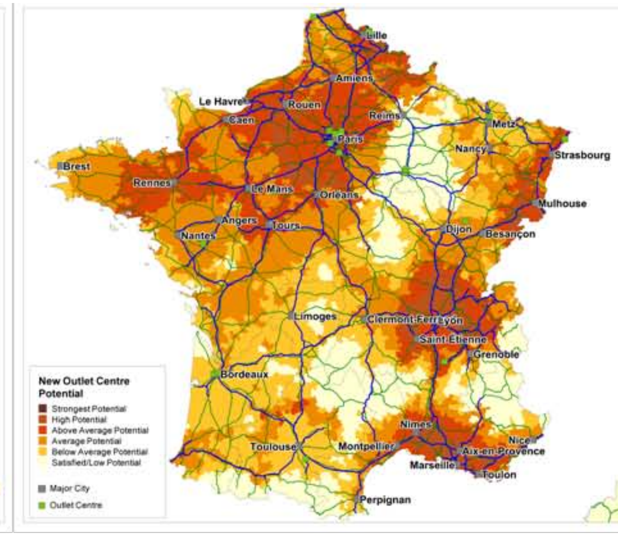
- Examples of successfully regenerated outlet centres include: Festival Park (Ebbw Vale), B5 Berlin (now McArthurGlen Berlin) and Factory Shopping Messancy (now McArthurGlen Luxembourg)

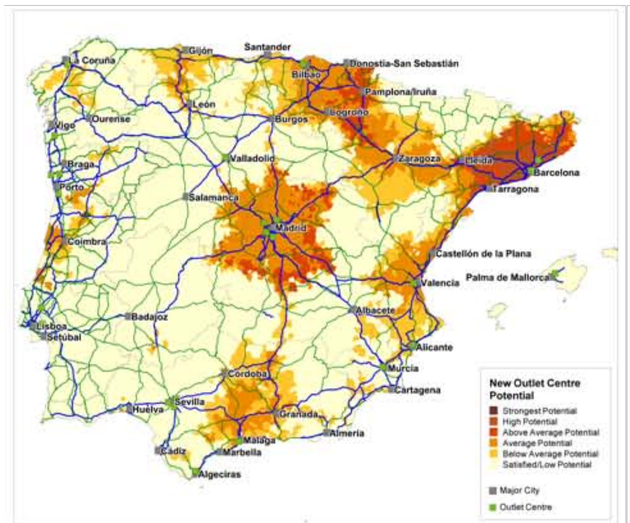
Growth Opportunities

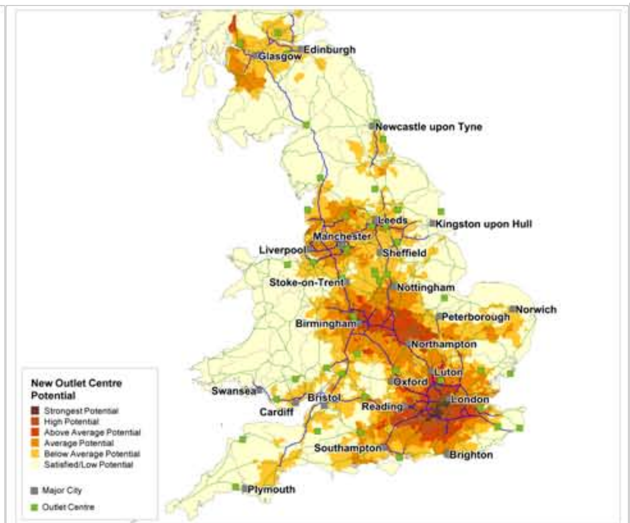
Geographical Opportunities for Development

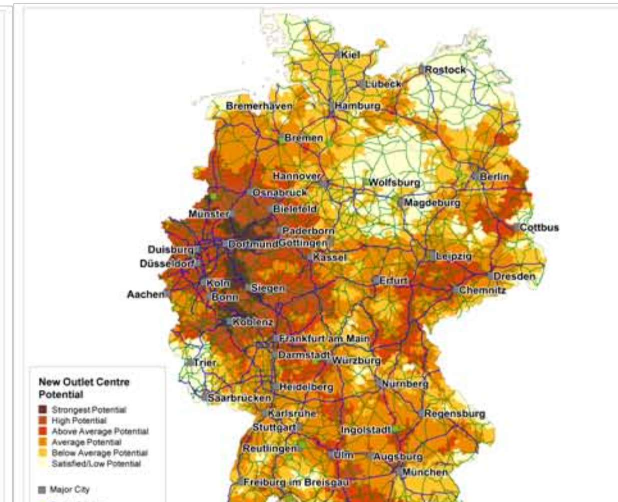






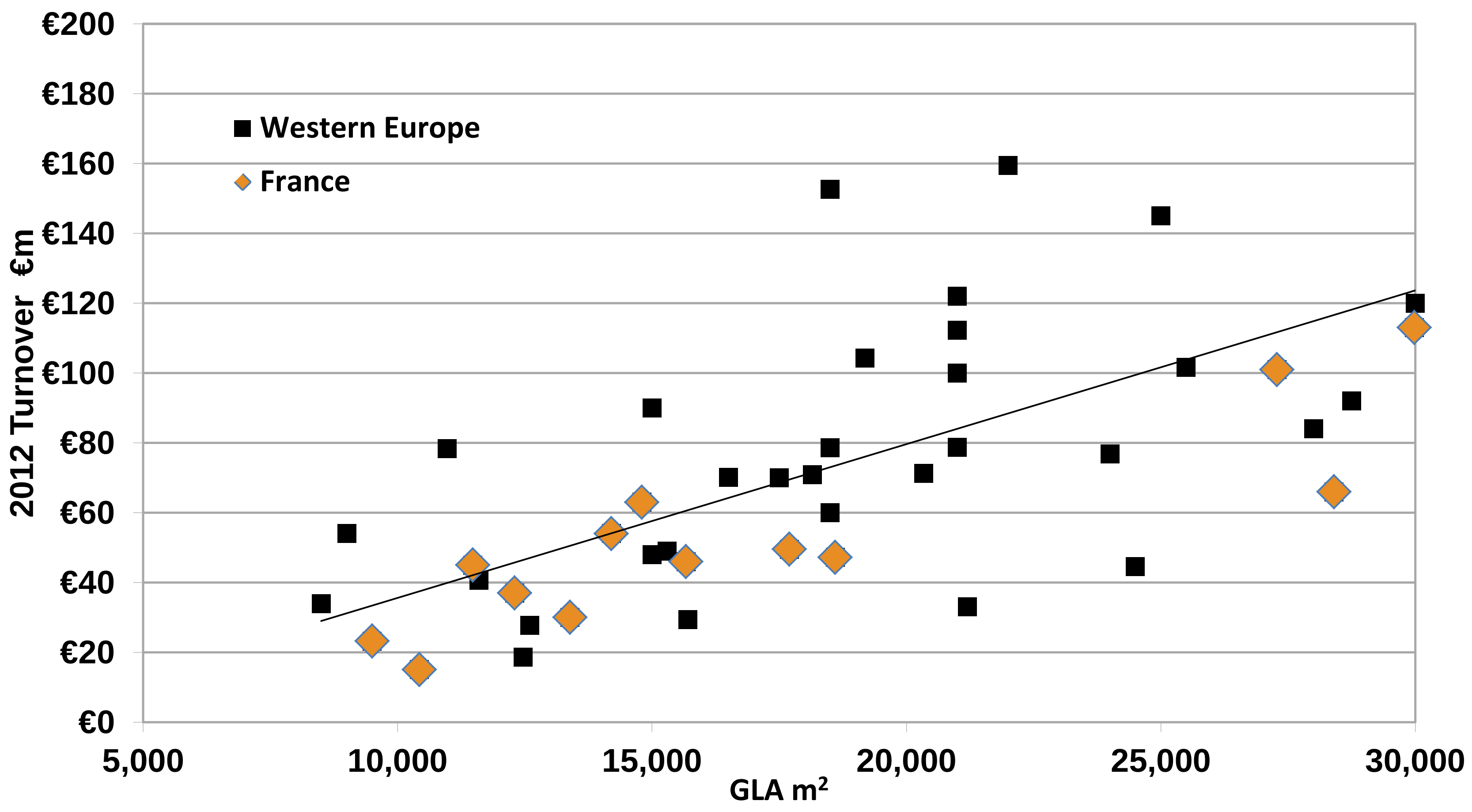






Source: FSP

Spread of Performance



Source: FSP

Which is Attractive to Investors

- Underperforming outlet centres tend to be missing one or several drivers

- Underperforming schemes can be recognised by;

    - Weak Anchor stores
    - An extended merchandise offer, with stronger concentration of minor categories such as household goods (furniture, ceramics and kitchen shops)
    - An over reliance on local brands and multi-brand retailers
    - A mid market price proposition
    - A focus upon *Family* rather than *Assured* fashion occupiers
    - High vacancy
    - An empty car park!

- The next slides give examples of opportunities where good developers and operators can work to increase turnover

Extending Dwell & Spend through Leisure

Source: FSP

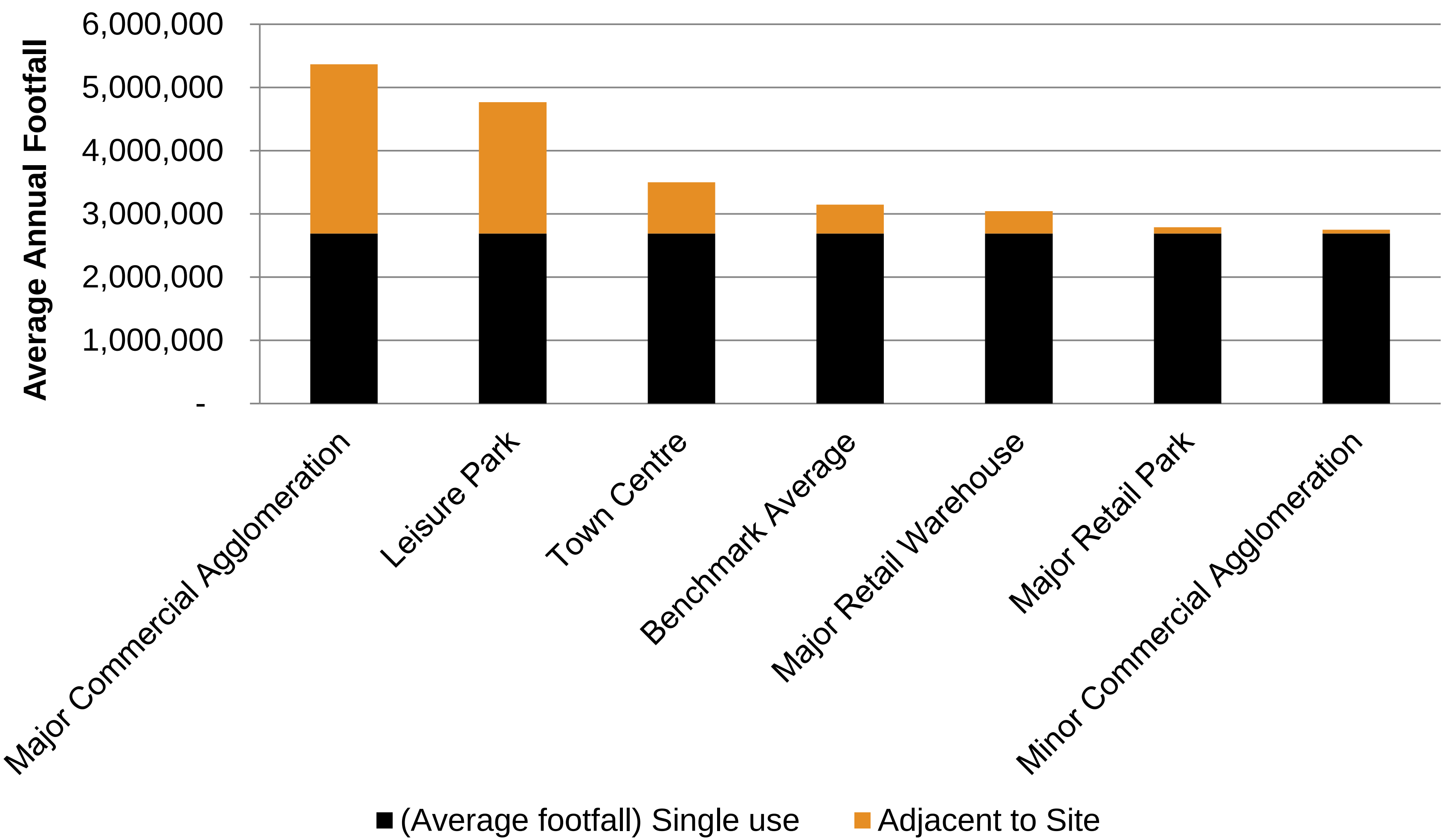
Tapping into Local Tourism

Source: FSP

Increasing Footfall through Adjacencies

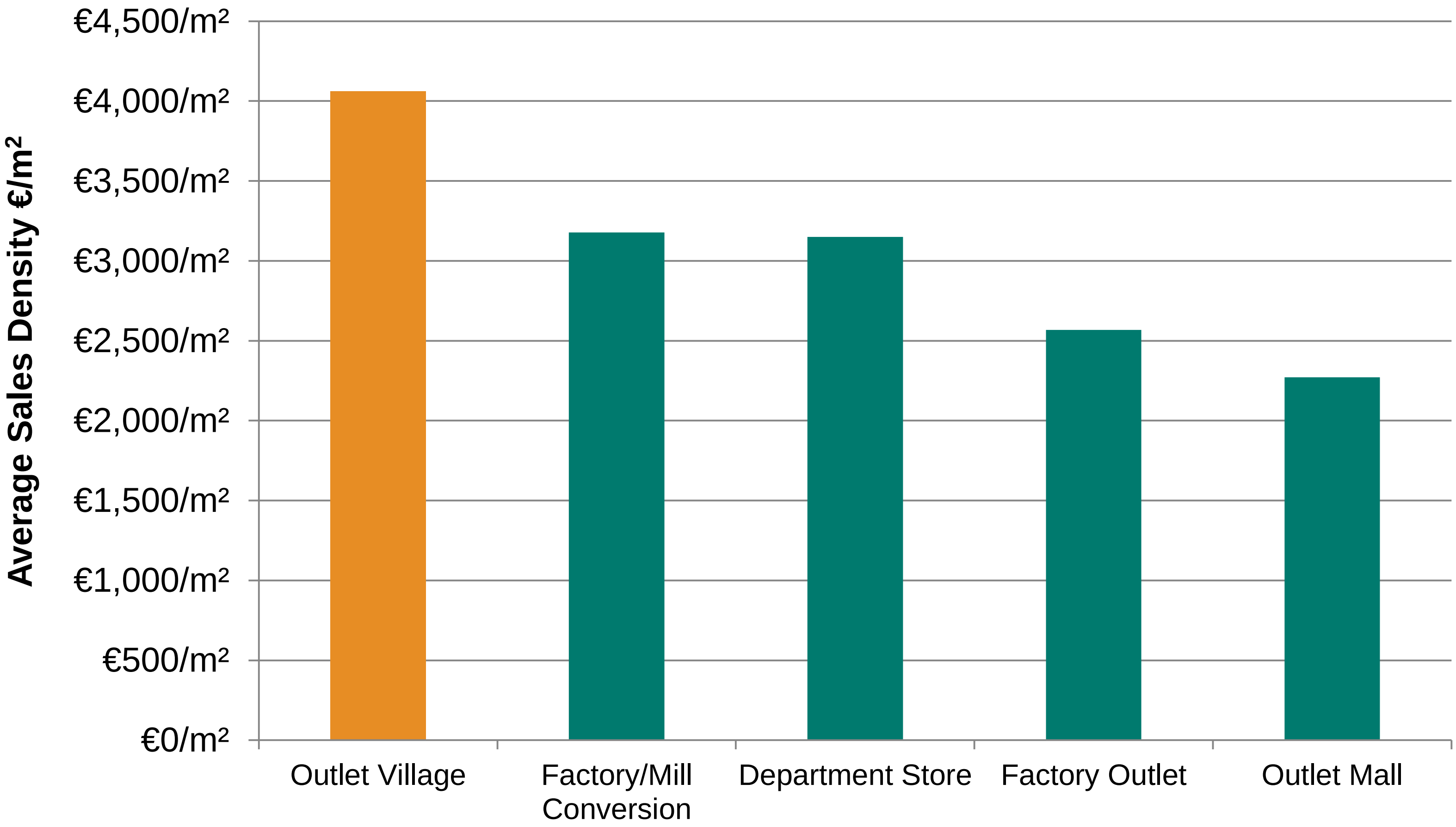
Source: FSP

Footfall Opportunities



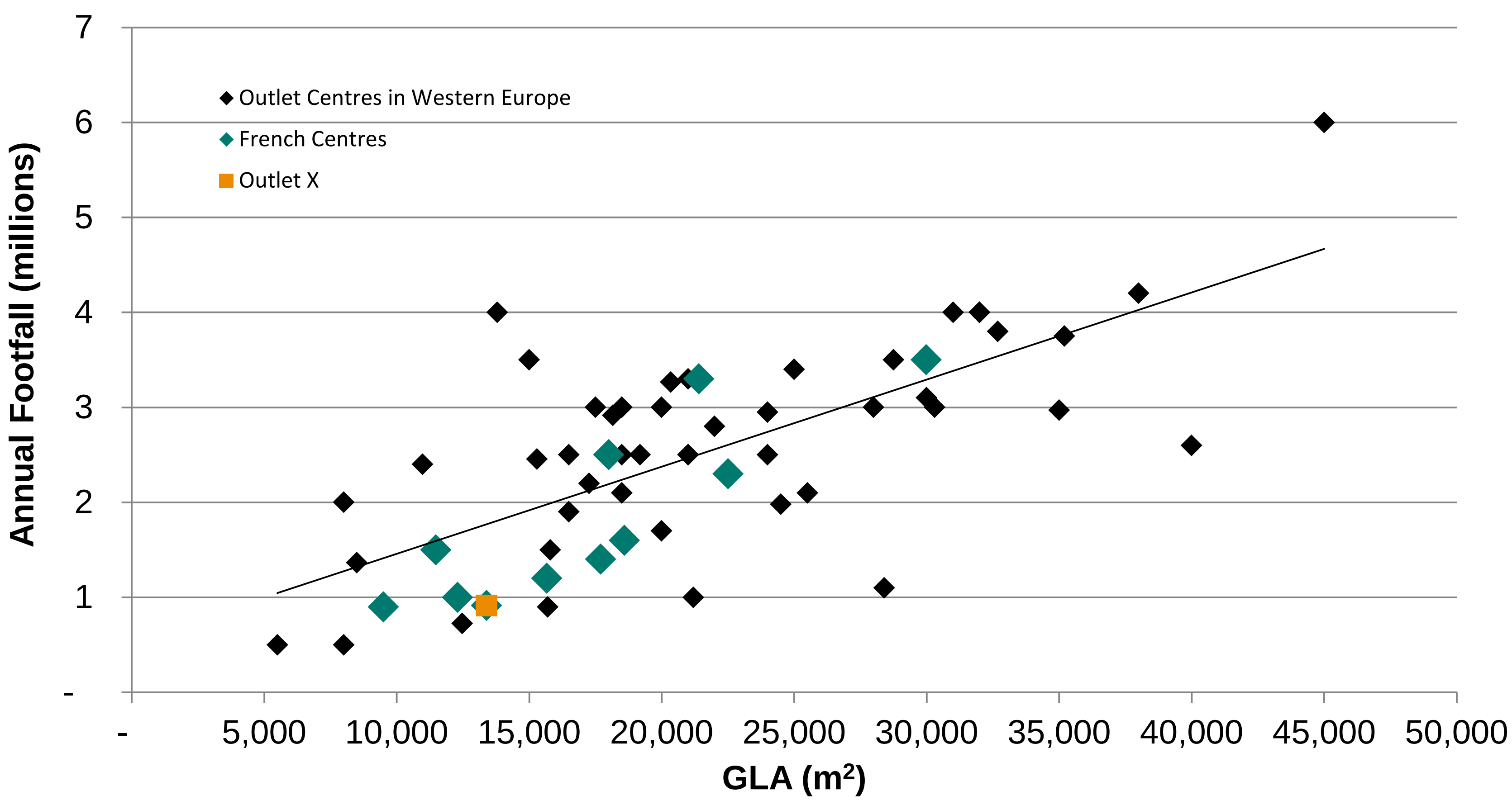
Source: FSP

Format Opportunities



Source: FSP

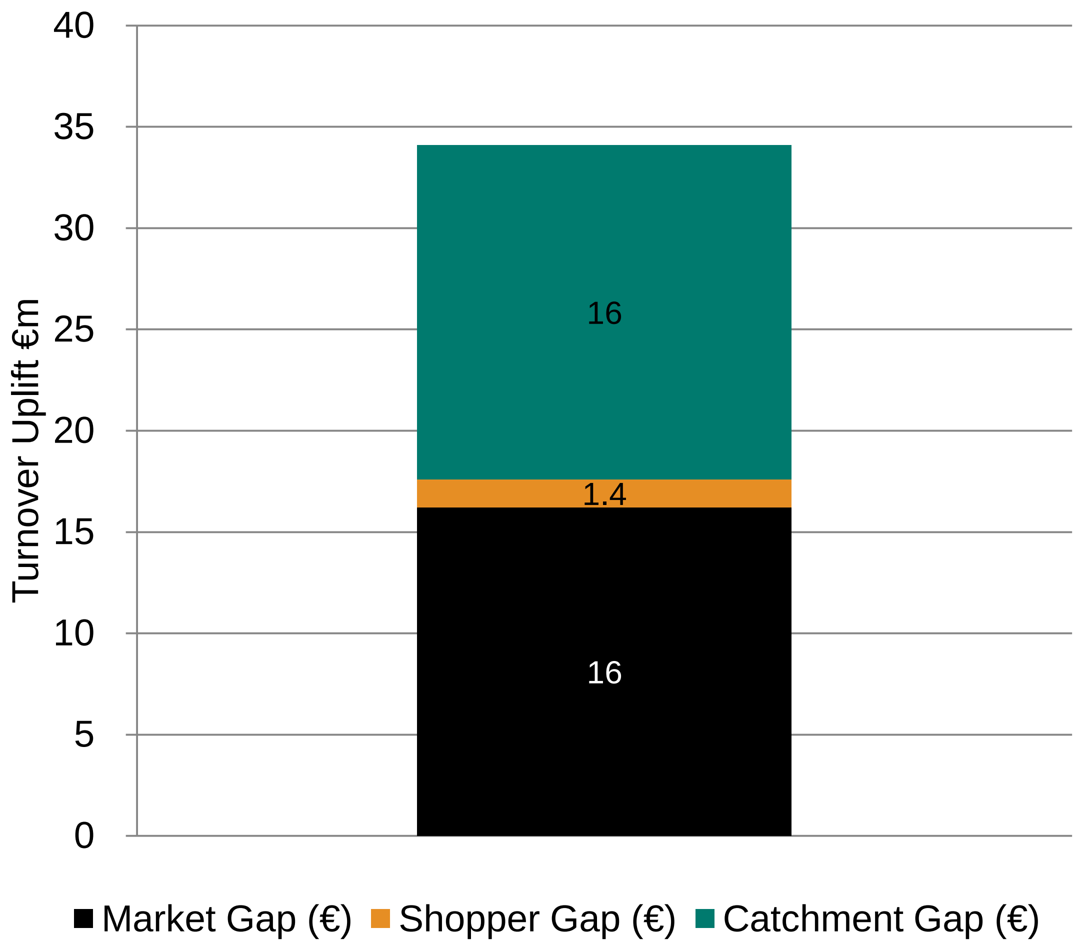
Assess Realistic Growth Opportunities



Source: FSP

Prioritise Growth

- Market Gap – sell more to existing shoppers
- Shopper Gap – more effective marketing and positioning
- Catchment Gap – better overall customer package



Source: FSP

Conclusions

Conclusions

- There are over 200 trading outlet centres in Europe which encompass a variety of formats, price positions and locations
- Shoppers are educated, affluent and fashion conscious
- Many visitors consider themselves as 'day trippers' rather than shoppers. Some centres are major tourist attractions while others benefit from being close to major tourist attractions and other footfall generators
- Current development activity is focused in Germany, Central and Eastern Europe. Elsewhere, there are additional opportunities to infill under developed locations including the UK (Midlands/SE), France (Lyons, Provence) and Spain (Catalonia)
- There is scope for further development of between 50 and 75 new outlet centres suggesting that the pace of growth will continue however, few territories are now genuinely untapped

Conclusions

- As the number of outlet centres increases, trading issues are likely to become more common as schemes become less distinct from discount high streets
- This is creating significant opportunities for investors (often in less risky, higher spending markets) to improve the customer offer, create footfall generators and manage schemes more effectively
- New territories are an important aspect of industry growth
- It is important to remember that
  - established territories will always be new to some players
  - as the map of Europe fills up, future profit is just as likely to be generated through better performance in established markets

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