



# Shortened Version

- without centre profiles and market data -

14<sup>th</sup> April 2014

The big ecostra

# Outlet Centre Handbook Europe 2014

Centre Profiles  
Market Data  
Operators / Developers / Investors  
Experts Essays

# Analyses and Strategies for Markets and Locations in Europe

## **Our Service Range for the Private Sector**

- Location and Potential Analyses
- Feasibility Studies
- Optimising the Location Network
- Approval Procedures; Impact Studies
- Investment Decisions
- Portfolio Guidance and Evaluation
- Center Development
- Competitive Analyses
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- Area and Utilisation Concepts
- Tenant Demand Reports
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- Regional Economic Analyses (impacts, indirect returns)
- Analyses on Local Retail Supply
- Basic Research
- Opinion Research

**ecostra**

Economic, Location and  
Strategy Consultancy in Europe

Luisenstrasse 41  
D-65185 Wiesbaden

Tel. +49 – (0)611 – 71 69 575 0  
Fax. +49 – (0)611 – 71 69 575 25

[www.ecostracom](http://www.ecostracom)  
[info@ecostracom](mailto:info@ecostracom)



# Preliminary Note

Within the scope of the ongoing research activities ecostra analyses the retail markets in Europe. Besides, the market significance of the different retail formats and their conceptual specification, in particular the respective developments of the markets and locations are also in the focus.

Since many years ecostra publishes market surveys which cover the situation and development of Outlet Centres in Europe. These market surveys are updated every three months and are available as free PDF-downloads at the ecostra homepage to everyone interested. In particular internationally active brand manufacturers have used these market surveys to identify suitable locations or projects within the scope of their outlet strategy. Developers, operators and investors have pulled up these surveys to get among other things informations about the competitive development in geographical regions they are active.

In the past, ecostras experiences gained by the market observation as well as from the consultation activity with a huge number of projects all over Europe have already flowed onto a row of professional articles and essays. In 2011, on a special request of different customers – above all from the brand manufacturers as well as the finance industry - the knowledge and data on this specific retail market was bundled up in a comprehensive publication: "The big ecostra Outlet Centre Handbook Europe 2011".

In the course of the last 3 years many new Outlet Centres opened, some were closed and the data of many other centres changed. To take these developments in the European Outlet Centre market into account ecostra now presents the updated

## **"The big ecostra Outlet Centre Handbook Europe 2014"**

To complement the handbook professional essays were taken up by selected external experts who deal with aspects all around the development and the operation of Outlet Centres. These experts are renowned administrative and economic lawyers, representatives of operators of Outlet Centres, architects of retail projects, consultants in the European Outlet Centre market and leading managers of research institutes. The special thanks of the ecostra-team go to these authors, because with their support an interdisciplinary approach at the retail format "Outlet Centre" became possible.

At the core of this handbook are detailed profiles of all Outlet Centres currently operating in Europe. These profiles are structured according to the single European countries. In each case general maps with the Outlet centre locations in the respective European countries as well as selected market data are placed in front. The single centre profiles encompass – as far as known or available - the following details:



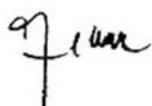
- Centre data, such as gross leaseable area (GLA), date of opening, developer, operator, owner etc.
- Construction phases with year of completion and GLA by phase
- Retail and service offer, search as number of outlet stores, occupancy rate, brand selection etc.
- Contact data, such as address of the Outlet Centre, the centre management and the leasing agency
- Centre map and photos of the Outlet Centre.<sup>1</sup>

The information in the centre profiles consists either of survey data, gathered by ecostra-employees on site at the time when investigations and consultation duties had to be done, is the result of desk-research or was provided by the operators of the centres especially for this publication. Thus the operators had the possibility to fill in the centre profiles sent by email in the period between January and March, 2014. The collected information was checked by ecostra-employees on plausibility and was complemented or corrected if possible or necessary. Unfortunately, for a few Outlet Centres only rudimentary information was given, with others against it entire and detailed data was available. All informations were collected, put together and processed according to the best of our knowledge. A guarantee for the up-to-dateness and correctness of the information cannot be given by ecostra. Hints, on the necessity to correct specific data and / or additional information to the complement of the profiles is accepted by ecostra at any time with pleasure.

Again, it is our intention to publish this handbook anew at the latest in 3 years – i.e. in 2017 – in an updated and supplemented version. Just as the European market for Outlet Centres is showing a very dynamic development, so the data and the knowledge must be constantly developed and adapted around this relatively new retail format.

Wiesbaden, 14<sup>th</sup> April 2014

ecostra GmbH



Dr. Joachim Will



Thomas Terlinden

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<sup>1</sup> In the profiles ecostra always uses own photos if available. These photos were taken by members of ecostra on site during visits in the last years. This is an attempt to ensure, that the impression of the centre reflects the real situation. Only in cases where no photos of the centre were available, pictures were used provided by the operators.





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Contact Data of the Essays Authors

Glossary





# 1. New Concepts and Trends in the European Outlet Markets

by Dr. Joachim Will, ecostra GmbH, Wiesbaden (D), [www.ecostracom](http://www.ecostracom)

For 30 years, Factory Outlet Centres have been operating in Europe. As such, these centres do not represent a whole new retail format anymore. Perhaps this may be surprising, looking at some discussions about Outlet Centres. Meanwhile there is sufficient experience and knowledge about specific site requirements, conceptual as well as functional features and benchmarks (e.g. rents, floorspace productivity, yields), so that an almost accurate evaluation and assessment of sites and concepts is possible. This is also true to the impact of Outlets on retail businesses, city centres and regional planning issues.



## 1.1 Basics

Factory Outlet Centres are an organized and coordinately planned agglomeration of retail businesses. In distinction from shopping centres, retail parks, off-price centres and also certain agglomerations of outlet stores (e.g. in Germany Herzogenaurach, Rottendorf, Ratingen) Factory Outlet Centres can be defined as follows:<sup>1</sup>

Dr. Joachim Will is Founder and CEO of ecostra GmbH. He has a lectureship at the IREBS International Real Estate Business School and is author of books and essays on retail and real estate development.

*Factory Outlet Centres (FOC) are an agglomeration of several outlet store units within a coordinately planned or spatially interrelated complex of buildings with more than 5,000 m<sup>2</sup> retail sales area (= approx. 6,000 m<sup>2</sup> GLA) and with more than 20 outlet stores. Manufacturers and vertically integrated retailers sell past seasons, factory seconds, surplus stock etc. directly to the consumer, without using retail businesses as (intermediate) distributive channels. All products are sold with a discount to the original high street price of at least 25 %. The coordination, organization and marketing of an Outlet Centre is carried out by a centre management. Designer Outlet Centres (DOCs) are Outlet Centres which claim to incorporate an especially high proportion of premium brands; however, the designation "DOC" is often used only for marketing purposes.*

On the basis of this definition the Outlet City Metzingen (D), the Seemaxx Factory Outlet Centre Radolfzell (D), the 50 Factory Store in Aosta (I) or The Mall in Leccio Reggello (I) are, among others, not to be classified as FOC.<sup>2</sup> The inclusion of a threshold level of at least 5,000 m<sup>2</sup> sales area (SA) in the definition serves above all

<sup>1</sup> cf. in this respect the definition of „Factory Outlet Centre“ in GESELLSCHAFT FÜR IMMOBILIENWIRTSCHAFTLICHE FORSCHUNG E.V. (HRSG.): Definitionen zur Einzelhandelsanalyse. Arbeitspapier. Wiesbaden, 02/2014, p. 99f

<sup>2</sup> Cf. to the examples named here [www.outletcity-metzingen.com](http://www.outletcity-metzingen.com), [www.seemaxx.de](http://www.seemaxx.de), [www.fifty.it](http://www.fifty.it) and [www.themall.it](http://www.themall.it)

to distinguish the professionally designed and implemented modern Factory Outlet Centres from small-sized objects, which have comparatively small catchments and thus usually have an economical relevance limited only to a local or regional level.

Furthermore, the so-called Off-Price Centres are to be distinguished from FOC. In Off-Price Centres, sales are carried out by third parties (classic retail activity) and the range often consists of non-regular branded goods (e.g. bankruptcy goods, gray imports). Due to the problem of product availability brands and products change frequently. Similarly, so-called Value Centres, which represent a recent development in Europe, have to be distinguished. They combine major conceptual elements of an FOC (e.g. continuous discounting, dual pricing) with those of conventional shopping centres or retail parks and serve only a regional catchment area.<sup>1</sup>

## **1.2 Previous development of FOC locations and current market situation in Europe**

Coming from the USA, the first European FOC were developed in 1983 in France and since 1992 in the UK. Today, FOC are in operation in almost all Western European countries. Influenced by the experiences in the U.S, the first attempts to establish this retail format in the UK were supported above all by manufacturers.<sup>2</sup> The real rise of FOC, however, didn't start until operators from the United States (such as McArthur-Glen Realty, SD Malkin Properties and others) entered the UK market in the years 1995/96.

In fact, over the past 30 years the number of FOC locations in Europe has shown a tremendous growth. In the period between 2003 and 2013 for instance, the provision in Europe increased in regard to

- the number of operating FOC from 78 to 149 locations (= +91 %),
- the total sales area of Outlet Centres from approx. 1.0 million m<sup>2</sup> to approx. 2.4 million m<sup>2</sup> (= +139 %).

Looking at specific countries, past developments as well as the current situations differ, so that future development prospects of these national markets are varied too:

- With currently 35 FOC in operation and a total sales area of approximately 515,000 m<sup>2</sup>, the United Kingdom is considered a "saturated market". Although sporadic FOC sites are still being developed, this occurs mainly in the form of a displacement towards weaker locations and concepts. Over the past 5 years, all in all, more outlet centres were closed rather than opened here.

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<sup>1</sup> In regard to „Value Centre“ cf. the definition in GESELLSCHAFT FÜR IMMOBILIENWIRTSCHAFTLICHE FORSCHUNG E.V. (HRSG.): op.cit., p. 117

<sup>2</sup> So in the year 1988 the shoe manufacturer Peter Black Ltd in Hornsea (Humberside) and in the year 1993 the shoe manufacturer C&J Clark in Street (Somerset).



- A similar development is evident for Switzerland. The Austrian and Italian markets also show signs of saturation, while the latter has experienced a rapid development in recent years.
- Due to an extremely restrictive approval process and resistance against all forms of retail trade, the development was very subdued in Germany. Only recently a reversal of this trend can be detected: a total of 3 new sites were opened in 2012 alone with Soltau, Ochtrup and Neumünster. More building permits have been issued.

Tab. 1: Location Data, Figures and Trends of Factory Outlet Centres in Europe 2013

| Country <sup>(1)</sup> | Number of Sites |      | Total Retail Sales Area in m <sup>2</sup> |           | Ø Retail Sales Area in m <sup>2</sup> per Centre |        | Retail Sales Area in m <sup>2</sup> per 1,000 Inhabitants |      | Number of planned Sites | Medium Term Trend <sup>(2)</sup> |  |  |
|------------------------|-----------------|------|---|-----------|--|--------|---|------|-------------------------|----------------------------------|--|--|
|                        | IN OPERATION    |      |   |           |  |        |   |      |                         |                                  |  |  |
|                        | 2003            | 2013 | 2003                                      | 2013      | 2003   | 2013   | 2003  | 2013 |                         |                                  |  |  |
| UK                     | 36              | 35   | 438.530                                   | 515.275   | 12.180   | 14.720 | 8,3   | 8,4  | 3                       | ↘                                |  |  |
| Italy                  | 4               | 23   | 74.700                                    | 491.875   | 18.680   | 21.385 | 1,4   | 8,2  | 8                       | ↗                                |  |  |
| France                 | 12              | 17   | 198.400                                   | 255.750   | 16.530   | 15.045 | 3,6   | 4,1  | 10                      | ↗                                |  |  |
| Spain                  | 9               | 16   | 93.850                                    | 207.300   | 10.430   | 12.955 | 2,5   | 4,4  | 1                       | →                                |  |  |
| Germany                | 3               | 9    | 31.230                                    | 126.600   | 10.410   | 14.065 | 0,4   | 1,5  | 17                      | ↗                                |  |  |
| Poland                 | 1               | 9    | 8.100                                     | 133.500   | 8.100  | 14.835 | 0,2   | 3,5  | 2                       | ↗                                |  |  |
| Switzerland            | 4               | 6    | 37.530                                    | 87.500    | 9.380  | 14.585 | 5,7   | 11,4 | 1                       | ↘                                |  |  |
| Russia                 | -               | 3    | -   | 70.000    | -  | 23.335 | -   | 0,7  | 4                       | ↗                                |  |  |
| Greece                 | -               | 3    | -   | 45.500    | -  | 15.165 | -   | 4,0  | -                       | →                                |  |  |
| Ireland                | -               | 3    | -   | 22.800    | -  | 7.600  | -   | 5,4  | -                       | →                                |  |  |
| Netherlands            | 2               | 3    | 24.320                                    | 69.145    | 12.160   | 23.050 | 1,7   | 4,2  | 2                       | ↗                                |  |  |
| Portugal               | 1               | 3    | 22.500                                    | 82.350    | 22.500   | 27.450 | 2,4   | 7,8  | 1                       | →                                |  |  |
| Austria                | 1               | 3    | 18.000                                    | 75.035    | 18.000   | 25.010 | 2,5   | 8,9  | -                       | →                                |  |  |
| Sweden                 | 3               | 3    | 37.550                                    | 37.200    | 12.520   | 12.400 | 4,7   | 4,0  | -                       | →                                |  |  |
| Czech Republik         | -               | 2    | -   | 38.500    | -  | 19.250 | -   | 3,7  | 1                       | →                                |  |  |
| Belgium                | 2               | 2    | 23.670                                    | 32.000    | 11.840   | 16.000 | 2,6   | 3,0  | -                       | ↗                                |  |  |
| Hungary                | -               | 2    | -   | 29.500    | -  | 14.750 | -   | 2,9  | -                       | →                                |  |  |
| Croatia                | -               | 1    | -   | 15.050    | -  | 15.050 | -   | 3,4  | -                       | →                                |  |  |
| Romania                | -               | 1    | -   | 14.500    | -  | 14.500 | -   | 0,7  | -                       | →                                |  |  |
| Bulgaria               | -               | 1    | -   | 13.000    | -  | 13.000 | -   | 1,7  | -                       | →                                |  |  |
| Serbia                 | -               | 1    | -   | 13.000    | -  | 13.000 | -   | 1,4  | 1                       | ↗                                |  |  |
| Lithuania              | -               | 1    | -   | 12.700    | -  | 12.700 | -   | 3,8  | -                       | →                                |  |  |
| Norway                 | -               | 1    | -   | 11.000    | -  | 11.000 | -   | 2,3  | -                       | →                                |  |  |
| Denmark                | -               | 1    | -   | 10.000    | -  | 10.000 | -   | 1,8  | 3                       | ↗                                |  |  |
| Slovakia               | -               | -    | -   | -         | -  | -      | -   | -    | 2                       | ↗                                |  |  |
| Ukraine                | -               | -    | -   | -         | -  | -      | -   | -    | 1                       | ↗                                |  |  |
| Estland                | -               | -    | -   | -         | -  | -      | -   | -    | 1                       | ↗                                |  |  |
| Total                  | 78              | 149  | 1.008.380                                 | 2.409.080 | 12.930   | 16.170 | -   | -    | 58                      | ↗                                |  |  |

<sup>(1)</sup> = Deceding order according to the number of centres in operation

<sup>(2)</sup> = Classification of the medium-term trend in the development of the numbers of FOC locations and the size of the retail sales area of FOC in the respective countries from ↗ (= rapidly growing) to ↘ (= rapidly declining)

Source: ecostra, June 2013

- Starting in the year 2000 and due to increased purchasing power and an in part already well developed brand orientation of consumers, the Central and Eastern European Countries (CEEC), moved into the focus of FOC developers. In addition to Poland, locations in the Czech Republic, Hungary, Croatia, Romania and



Bulgaria have been realized. All of them are located in the immediate vicinity of metropolitan cities. With the exception of Poland, the "credit crunch" of 2008, however, has led to the situation that FOC projects in these countries are hardly able to receive bank financing. At the same time, many brand manufacturers have scaled back their expansion in these countries. This situation has not changed significantly until the present day. Another exception here is the Russian Federation, which has a comparatively high number of mega-cities with a growing middle class and thus a non-negligible potential.<sup>1</sup> Quite remarkable in this context is that so far Europe's most powerful and experienced FOC operators and developers refrained from a commitment in the CEEC and have left these markets to other actors.

In Mid-2013 there were about 58 FOC projects in a more or less concrete planning stage in Europe, with the largest share in Germany. It is difficult to estimate how many of these projects ultimately will be realized.

### **1.3 Factory Outlet Centre as an Expression of the Dynamics in Retail**

Locations and business types of retail change. The influencing factors in this context are often varied. They range from changing consumer needs through changes in competition to technological developments or a reassessment of distribution strategies within the marketing policies of companies. The changes can root in the rise and decline of forms of distribution, in new concepts as well as assimilation to existing retail business types or in the integration of new ones. In the scientific analysis of the development of operational forms of retailing, various theories have been developed on a meta level. They provide possible explanations for market dynamics and changing business models. With regards to the recent developments in Factory Outlet Centres the displacement theory (e.g. McNair, Nieschlag) and the life cycle theory (e.g. Berger, Nagel) offer a theoretical basis, which seems quite appropriate to reflect the findings and - with all due caution and restraint – can possibly provide guidance regarding developments in the near future.<sup>2</sup>

The basic assumptions of the displacement theory can be outlined roughly as follows:

- Market entry with a strategy of low prices
- After gains in market share and taking root in the market the growth slows down
- An increasingly stagnant development leads to a "trading up" with higher costs and thus an increase in prices

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<sup>1</sup> However, in Russia, corruption, the spheres of interest of local and regional oligarchs and the specific distribution structures of many brand manufacturers are obstacles to development especially for international FOC operators and developers and cannot be underestimated; cf. WILL, J. & SCHWARZE, J.: Factory Outlet Centres. A Catch-Up-Race begins in Germany. In Clifford Chance (eds): Real Estate Newsletter. Autumn 2009, p. 3

<sup>2</sup> However, these explanations have no normative significance in terms of an inevitable course of development of types of business; see the discussion of theoretical approaches e.g. Müller-Hagedorn, L.; Toporowski, W. & Zielke, p.: Der Handel. Grundlagen – Management – Strategien. 2. Aufl., Stuttgart, 2012, p. 362ff



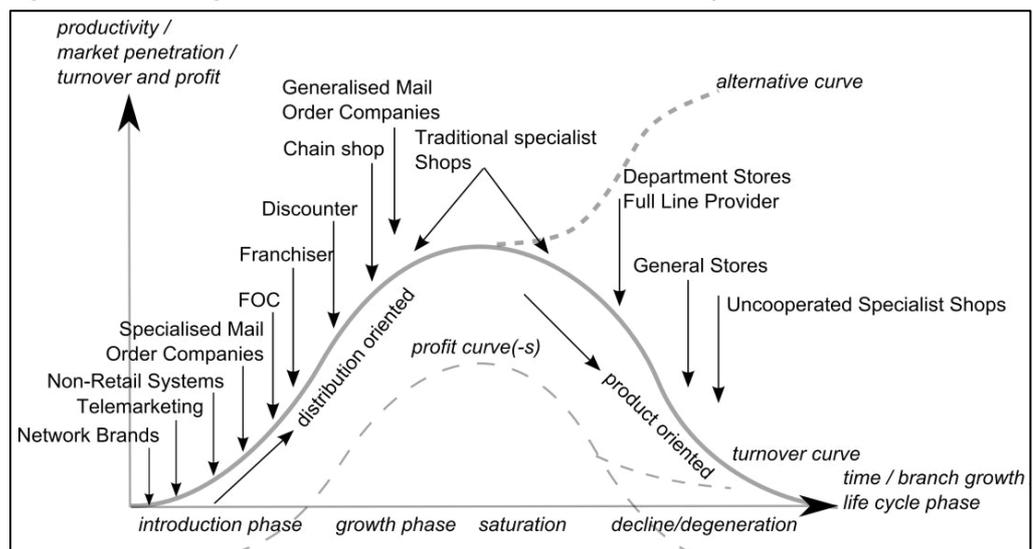
- New price-sensitive forms of distribution follow. The "wheel of retailing" continues to turn.

The life cycle theory approaches on retail business types form an analogy to the life cycle of products. Thus the development of sales and market significance follows a curved profile, which can be divided into:

- an introduction phase
- a phase of growth
- a saturation or maturity stage
- and a period of decline or degeneration

Again this approach does not necessarily apply everywhere, since different types of retail show quite different developments in sales and earnings. Nevertheless these approaches are able to explain various aspects of the development of different distribution channels.

Fig. 1: Situating different distribution channels on a life cycle model



Source: Translated from EGGERT, U.: Zukunft Versandhandel – Der Versandhandel der Zukunft, Köln, 2005

## 1.4 New Concepts and Trends

### 1.4.1 Investors and operators looking at new locations

With the emergence of the first professionally designed and organized FOC, they moved away from the locations of classic Factory Outlet Stores. Whilst the first were situated almost always on the production sites of the respective manufacturers, FOC have established in locations which meet very specific requirements. In addition to a plot size with a sufficient "critical mass" FOC locations are chosen primarily according to accessibility (motorway connection, available parking space), in a location along important tourist highways and between highly populated metropolitan areas. Furthermore the locations should be at a certain spatial distance to brand-oriented main shopping areas of major cities (so-called "retail sensitivity").

As a result FOCs have been developed on so called "green field"- sites away from metropolitan areas with good accessibility for potential customers who travel relatively long distances. Although the essential site criteria are still valid and "green field" sites remain the main area of expansion, it is also noteworthy that in the meantime FOC locations have been developed in close proximity or even directly around large cities and metropolitan areas.<sup>1</sup> A fairly recent development is the integration of outlet stores under a single concept and management in historic city centres, where existing buildings are being used.<sup>2</sup>

The growing experience of tenants made the flexibility of location for FOC possible. Through the operation of their outlet stores, they recognized that their fear of cannibalizing other existing distribution channels have largely not been confirmed. As a result, the importance of the so-called "retail sensitivity" of manufacturers towards other distribution partners has declined (see also Figure 2).

**Preliminary conclusion and outlook:** Car-oriented remote locations are still in focus of FOC expansions. A subsiding "retail sensitivity" however, has made locations possible which are in the immediate vicinity of large cities and metropolitan areas and easily accessible by car. As a result, the FOC are now moving closer to the population centres. Chances are that FOC concepts will be realized in historic city centres in the future.

#### 1.4.2 Concept development and Outlet Centre hybrids

Besides their growth and new locations, FOC have evolved a lot since this originally American concept arrived in Europe. This is evident through the fact that in a period of only 20 years four "generations" of FOC with different features can be distinguished. The dynamics of this change take place mostly in the organization and on the supply side. The "trading up" entails a refinement of distribution methods, as well as a stronger focus on tourists as customers and on clients from a larger geographical area. As a result, this form of distribution has undergone a certain maturing process in Europe (see the table in chapter 3.3 on page 24).

In economic terms, the "Village-style" Outlet Centres have since become the most successful FOC concept in Europe. From the tenant's perspective, eight out of the ten

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<sup>1</sup> Examples are the McArthurGlen Centre in Wals-Siezenheim, Austria, which is situated within the buildup area of the city of Salzburg and the London Designer Outlet, open since October 2013, located in the British capital in a mixed-use area (including a multiplex cinema, restaurants) with the Wembley stadium in the immediate neighborhood.

<sup>2</sup> A recent example is Bad Münstereifel, Germany, where the so-called "City Outlet Bad Münstereifel" will open in August 2014. Economically this project was made possible only by the commitment of local entrepreneurs and investors. In this respect it appears that projects like this are difficult to realize and unlikely to be sold as a popular real estate product. .



most successful locations in 2013 are of this type, whilst only one is defined as a Mall type and one as a hybrid of Village, Mall and Strip types<sup>1</sup>.

All of the above mentioned FOC types - whether Mall, Strip or Village types - were marketed with the claim to offer a high-quality range of brand-name fashion, even though the actual product range in some cases did not reflect that claim. Whilst marketing promoted "designer goods", the corresponding products were often enough – at best – at a medium price range. At the same time FOC tried to appeal to a wide regional catchment area. Newer developments show a different approach: These concepts aim at offering a mix of brands in a low to medium price range, are usually considerably smaller in size and focus "only" on a regional catchment area. These hybrid forms between Outlet Centres and retail parks, occasionally titled "Value Centre", appeal to tenants with considerably lower base rents and running costs and thus allow for similar or even higher yields at lower sales productivity (sales / m<sup>2</sup>).<sup>2</sup>

**Preliminary conclusion and outlook:** The concepts of outlet stores in Europe have developed rapidly in the past 20 - 30 years, with clear tendencies of "trading up". The market responds to this "trading up" - noticeable e.g. through increased occupancy costs (rent & "service charges") – and with the development of new (rental-) price-aggressive distribution types, which adapt essential conceptual features of Outlet Centres (e.g. continuous discounting, dual pricing). At the same time they target a smaller catchment area. With increasing market saturation for FOC it is expected that these hybrids will occupy a niche between the FOC and traditional shopping malls. They might even be able to concentrate on themselves a considerable market share within the total retail market, which is potentially higher than the share of the professionally designed FOC.

#### 1.4.3 Change in self-perception and repositioning as a shopping tourist destination

Parallel to the development and change of the distribution concept from Factory Outlet Centre towards Outlet Villages which promote themselves as shopping tourist destinations there has also been a change in terminology. Leading FOC developers and operators have recently begun to avoid the term "Factory" Outlet Centre and speak only of Outlet Centre or Outlet Village, in some newer developments they even get rid of the term "Outlet" and try to position themselves as "Fashion Village" or the like.<sup>3</sup> This is a conscious deferral from the original concept of a factory sale. This development can be seen as a clear indication of a certain "maturity" process of this distribution form, which materializes through a professionalization of the management, the

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<sup>1</sup> For the different FOC-types Village, Mall and Strip with their conceptual features compare WILL, J.: Wertermittlung von Factory Outlet Centren. In BOBKA, G. (HRSG.): Spezialimmobilien von A-Z. Bewertung, Modelle, Benchmarks und Beispiele. Bundesanzeiger Verlag, Köln, 2007, p. 256f

<sup>2</sup> Several of these new developments are marketed as „Value Centre“, compare the respective definition in GESELLSCHAFT FÜR IMMOBILIENWIRTSCHAFTLICHE FORSCHUNG E.V. (HRSG.): op.cit., p. 117

<sup>3</sup> See for example the developer Value Retail with „Wertheim Village“, „Ingolstadt Village“, McArthurGlen with „Designer Outlet Roermond“, „Designer Outlet Parndorf“, Neinver with „The Style Outlets Zweibrücken“, „The Style Outlets Vicolungo“ and Fashion House Management with „Fashion House Warsaw“, „Fashion House Bucharest“

integration of modern marketing methods in the sales policy and not least in a creative and conceptual "trading up". Outlet Centres have now emancipated both from traditional factory outlet locations, as well as from their original distributional attributes.

**Preliminary conclusion and outlook:** Not only in the developer's self-perception, the FOC have evolved from their origins and distinguish themselves significantly from conventional "Factory Outlets". The communication strategy is now mainly geared to promote the FOC as a tourist destination, whilst the core marketing concept remains the rebate of known brands. In this context, it appears that outlet agglomerations - such as the Outlet City Metzingen - despite their considerable size and broad mix of brands - will increasingly face difficulties, competing against modern and professionally designed Outlet Centres. Unlike Metzingen, modern Outlet Centres feature a clear profile as shopping tourist destinations especially in terms of the atmospheric quality of spaces. They are much closer to that so-called "third place", which signifies that certain space in addition to the places of living and working, and which is currently traded as one of the hot topics in the discussion on the further development of shopping centres.<sup>1</sup>

#### 1.4.4 FOC-catchment areas in increasingly saturated markets

After 30 years of operating outlet stores in Europe, there are several empirical studies on the spatial origin of visitors at a number of these sites. These prove that visitors are actually drawn from a very large area if the Outlet Centre is attractive enough. Accordingly, these centres have very large geographical catchment areas compared to the distribution form of a shopping centre, often including distances of 90 minutes by car or more.<sup>2</sup> With an increasing density of FOC in the market and related to that, an intensification of competition, it must be assumed that these FOC catchment areas will not remain unaffected in their spatial extent and probably "squashed" in those areas where one or more competing sites are in closer proximity. Similarly to the development of other distribution forms in retail trade, there is reason to assume that the current vast catchment areas cannot permanently be maintained.

As a rule the most intense competition in the retail sector exists within a certain space and between identical distribution types (and especially identical operators in a comparable location). It gets gradually less intense with similar distribution types offering the same range of goods. Accordingly, the strongest competition for FOC is against other FOC and then only on lower levels they compete against shopping centres, urban shopping areas, retail parks and retail agglomerations in the area.

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<sup>1</sup> cf. OLDENBURG, R.: The Great Good Place: Cafes, Coffee Shops, Community Centres, Beauty Parlors, General Stores, Bars, Hangouts, and how they get you through the Day. New York, 1989; see about the significance of the „third place“-in shopping centres RETAILPARTNERS (HRSG.): Studie zur Zukunft der Schweizer Shoppingcentre. Architektur und Gestaltung von Schweizer Shoppingcentren im Spiegel der Megatrends Multichannel, Silver Shopper und Third Place. Wetzikon, 09 / 2013, p. 51ff

<sup>2</sup> Between 23.1 and 27.3 % of visitors to the FOC Ingolstadt Village come from more than 90 minutes away. For the FOC Wertheim Village and the Designer Outlet Roermond (NL) this applies to approximately 35 % and at the Designer Outlet Soltau to about 33.8 % of visitors; cf. ECOSTRA: Monitoring zu den Auswirkungen des Designer Outlet Soltau. 2. Berichtsband. Wirkungen innerhalb des 1. Betriebsjahres. Wiesbaden, 12 / 2013, p. 4



Contrary to what one might expect, an increasing number of FOC locations in a certain market do not generally lead to a decline of the catchment areas' geographical extent.<sup>1</sup> Rather, overlapping effects are detectable, far more than it would be the case for other forms of large scale retail trade. Thus, it would not be appropriate to assume that spatial proximity or distance is the sole or even the most important criterion in the analysis of the consumer's decision-making process to visit a particular Outlet Centre. If two or more FOC form overlapping catchment areas the "nearest-centre" hypothesis, which plays an important role also for the Central Place Theory is hardly applicable.<sup>2</sup> It would suggest that if two – from the consumer's perspective - equally attractive FOC exist, the nearer Outlet Centre would always be selected as destination.

The behavior of FOC customers hardly shows the characteristics of fulfilment of demand. Also "bargain hunting" as a motive for visiting an Outlet Centre has decreased in importance as the product range (i.e. discounted brand-name merchandise) itself is becoming increasingly interchangeable or substituted by consumers through alternative sources which require less time and travel and thus provide lower transaction costs.<sup>3</sup> When looking at the distribution type FOC, touristic motives in connection to a shopping experience play an increasing role, as

- Customers rarely have concrete ideas on purchasing a certain product, when they head for the FOC (no targeted purchases)
- Customers almost always bring friends and family and rarely come alone. This means shopping at an FOC is first and foremost a social event
- the visit at an FOC is often connected to other activities in the region (e.g. sightseeing).

Accordingly, FOC operator's standard marketing has developed towards a marketing of the destination as it is done in tourism advertising. Outlet Centres are deliberately positioned as destinations for a day trip and have evolved to "new places of shopping tourism".

**Preliminary conclusion and outlook:** In markets with an increasingly higher FOC density, overlapping effects can be observed to great extent in the catchment areas of the individual FOC locations. The increased density does thus not necessarily result in a spatial reduction of the catchment areas of individual sites. Due to the nature of the Centres as shopping-tourism destinations, consumers use the respective FOC locations in terms of "as well as" and not in terms of "either-or" which would correspond to the "nearest-centre" hypothesis.

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<sup>1</sup> This does of course not apply to less attractive Centres or Centres with a limited suitability of their location. With increasing competition these Centres will gradually be pushed out of the market.

<sup>2</sup> About the Central Places Theory see e.g. BLOTEVOGEL, H.H. (HRSG.): Fortentwicklung des Zentrale-Orte-Konzepts. Forschungs- und Sitzungsberichte der Akademie für Raumforschung und Landeskunde (ARL). Bd. 217. Hannover, 2002

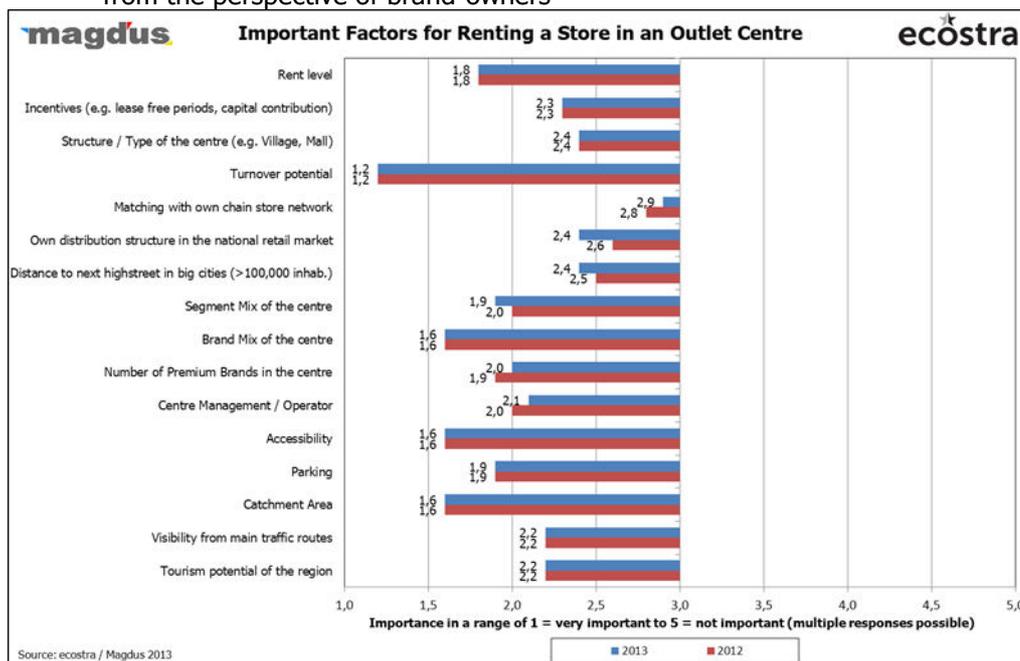
<sup>3</sup> This becomes evident through the tremendous growth of online stores (eg Zalando, Brands-for-Friends, Buy-VIP), which also rely on brand rebates and aim at comparable customer target groups.

1.4.5 Development of the tenant market: Outlet Stores as profit centre and integral part of the distribution strategy

In the distribution system of most manufacturers, classic stationary retail trade still plays the most important role, considering the volume sold there continues to be the largest. However, in recent years and in the context of further verticalisation, almost all brand manufacturers have - in addition to their own stores (flagship stores, brand stores) and the establishment of online stores - developed a so-called "Outlet strategy" within their distribution policy. In general this distribution channel receives high rates of acceptance from the manufacturers, not only from its function for stock adjustment, and the increasingly important "secured and controlled distribution",<sup>1</sup> but also from the perspective of economic income and brand positioning.

Recent empirical surveys show that the importance of Outlet Stores as part of the manufacturer's multi-channel distribution strategy has increased in recent years and can be expected to increase more in the future. Today, the most important decision-making factor for hiring an Outlet Store in an FOC is by far its revenue potential. From the perspective of brand owners, outlet stores have a better profitability than their online stores and generate significantly better returns than their own brand stores in the main shopping locations of city centres.<sup>2</sup>

Fig. 2: Relevant decision-making factors for renting store-space in an Outlet Centre from the perspective of brand-owners



<sup>1</sup> ZENTES, J. & NEIDHARD, M.: Secured und Controlled Distribution – Die Industrie als Einzelhändler. In ZENTES, J. (HRSG.): Handbuch Handel. Strategien – Perspektiven – Internationaler Wettbewerb. Wiesbaden, 2006, p. 275ff

<sup>2</sup> see ecostra (ed.): Factory Outlet Centre Performance Report Europe 2013. Wiesbaden / Troyes, 11 / 2013



**Preliminary conclusion and outlook:** Outlet stores in FOC today are clearly seen as a profit centre from the brand manufacturers and are operated as such. In contrast, the function of stock adjustment, to sell returns and class B merchandise has moved to the background. It is generally assumed that this distribution channel continues to gain in importance within the distribution strategy of manufacturers. For some it might even become the most important sales channel at all, with the far majority of sales through outlet stores. For other manufacturers, in turn, FOC will always remain of secondary importance within the distribution policy.

#### 1.4.6 Differentiation and professionalization of the operator market and new service providers

Since the development of the first FOC sites in Europe the operator market has undergone significant changes. In the late 1990s, Europe had about three to four operators which managed more than three Outlet Centres at the same time. The rest of the market was highly fragmented and dominated by "lone wolves". Accordingly, leasing and management of many centres differed broadly in quality. The major operators at the time, which were also the fastest growing developers, are mostly among the established players of the industry today. In detail, these are:

- McArthurGlen (USA/UK)
- Value Retail (USA/UK)
- Realm Outlet Centre Management (UK)
- Concepts & Distribution (F).

The most significant change in the operator market took place around the year 2000, when new actors which had managed to acquire the specific know-how for operating Outlet Centres started to emerge. These "newcomers" can be divided into 4 groups:

- Project developers, which come from the commercial real estate sector (including retail parks, shopping centres). Examples are Stable International (NL), Neinver (E) and Promos Srl. (I)
- Service providers for established FOC operators that were previously active in the rental of outlet stores. Examples include brokerage houses like GVA Grimley (UK), CB Richard Ellis (UK, GER, F etc.) and Jones Lang LaSalle (UK, F, E, HU etc.)
- Start-ups by former employees of FOC operators. Examples are BVS Outlet Villages (B, UK), ROS Retail Outlet Shopping (A) and Pantheon Retail (GB, I)
- Shopping centre operators like e.g. Unibail Rodamco (F / NL), Segece (F) and Inter IKEA Centre Development (S, PL, CH etc.).

Overall, not only a differentiation has taken place, but at the same time a further professionalization of the European FOC operators market. This becomes evident through shifts in the operator's market significance. The Spanish operator Neinver for example has managed to bypass established companies such as Value Retail, Realm or Con-



cepts & Distribution as a "newcomer" and is today – based on retail space under its management – second only to McArthurGlen. At the same time a number of other service providers that act as specialists with a particular outlet competence have established in the market. They offer for example rental services tailored to Outlet Centres, advise investors and investment funds in the process of purchase and sale or work as architects with a specialization in this field.

**Preliminary conclusion and outlook:** The differentiation and professionalization of the operator market is well advanced in Europe by now. Competent outlet-specific consulting can be retrieved from specialized service providers. Even though new actors will keep entering this market, and others might disappear for all kinds of reasons, the dynamics of the development especially on the side of FOC operators will slow down significantly. Thus, this market has reached a certain "maturity".

#### 1.4.7 Outlet Centres as product for the investment market

For a long time banks and institutional investors were very cautious financing or investing in Outlet Centres. As a matter of fact, little experience and benchmarks existed and in many important fields (eg pre-lease, lease terms, turnover rents and incentives) FOC are very different from comparable commercial properties (eg shopping centres). Until the 1990s, the financing of Outlet Centres was carried out through private equity. In part, this is still the case. The interest of investors and financial service providers grew with reports on the economic success of Outlet Stores in several European countries, information on sales and rent levels and the relative resistance of this distribution form to economic cycles.<sup>1</sup>

Thus, institutional investors<sup>2</sup> started to acquire different Outlet Centres from around the year 2000. However, these are almost always part of mixed portfolios. To date, there are few specialized funds that are invested exclusively or mostly in Outlet Centres. Some of those are:

- European Outlet Mall Fund (EOMF), which was launched by Henderson Global Investors (UK) in February 2004 and has since managed a portfolio with a volume of almost € 1.5 billion. The European FOC leader McArthurGlen cooperates with Henderson Global Investors in its expansion.
- IRUS European Retail Property Fund, which was launched by the Spanish operator and developer Neinver in 2007 with a volume of € 1.4 billion. This fund

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<sup>1</sup> It should be noted that Outlet Centres - unlike often believed – do not behave anti-cyclically in their economic performance, but have a higher resistance to crisis, i.e. in phases of an economic downturn and the parallel reluctance of consumers there is initially little impact on Outlet Centres, while other forms of distribution in the retail industry face declining sales. Recent experiences in France, Spain and Italy even suggest that a recessionary economic phase with negative income growth Outlet Centres can even achieve substantial increases in sales and thus counteract the general market trend; see. ECOSTRA (ED.): Factory Outlet Centre Performance Report Europe 2013. Wiesbaden / Troyes, 11 / 2013

<sup>2</sup> As examples can be named DEGI Deutsche Gesellschaft für Immobilienfonds mbH, Aberdeen Asset Management PLC, ING Real Estate, Corio N.V., Kenmore Property Group oder SEB ImmoInvest.



serves essentially to hedge Neinver's European expansion strategy in Outlet Centres, but also in other retail properties.

- Polonia Property Fund I & II, which together represent a volume of € 650 million, are invested - among other things - in the Outlet Centres of the operator Fashion House in Poland.

As another example serves the British group Hammerson, which invested in the Outlet Centre Operator Value Retail with a volume of € 949 million (as of 31.12.2013). Hammerson keeps direct and indirect shares of the individual centres of Value Retail in varying amounts.

After some hesitation even mortgage lenders have since started to finance the project development of Outlet Centres, or participate in the refinancing and transaction financing; at least as long as it is about locations in Western Europe.<sup>1</sup> Investors and financial service providers have meanwhile recognized that appropriate locations, professional concepts and a corresponding management of Outlet Centres achieve returns which can be - sometimes significantly - higher than comparable figures for the national market of shopping centres or retail parks.

**Preliminary conclusion and outlook:** Today, Outlet Centres have become a separate asset class. However, this is also a niche market. From the perspective of investors, the main challenge of this market is relatively simple: There are only relatively few transactions of Outlet Centres in Europe. Especially well established and well-performing Outlet Centres rarely appear on the transaction market. This is not expected to change in the foreseeable future. On the other hand, borrowed capital is more accessible for FOC developers because mortgage lenders have acquired appropriate knowledge and know the specifics and benchmarks of this distribution form (eg, pre-lease, rental / sales ratios).

## 1.5 Conclusion and Outlook

Factory Outlet Centres are an expression of the ongoing dynamics in retail. As a relatively new form of distribution, FOC have not only arrived on the German retail market, but form an integral part of the local retail landscape today. Because of the resistance – among others - by the organizations of retailers and - in a European comparison - extremely restrictive approval practices, FOC entered the German market with a time delay and already matured concepts. From the beginning developers of Outlet Centres chose locations along main touristic routes between cities and the projects corresponded to FOCs of the third or fourth generation in other European countries with regards to their building structure, mix of branches and brands as well as their target groups. Examples for these German Outlet Centres are Wertheim Village, Ingolstadt Village, Designer Outlet Soltau and the McArthurGlen Outlet Centres in Wustermark and Neumünster. All of these sites try to position themselves through a

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<sup>1</sup> Examples are Eurohypo AG, BayernLB, Helaba, Westdeutsche Immobilien Bank AG, Pramerica, HSH Nordbank and Deutsche Pfandbriefbank.

choice of high-quality brands, are integrated into regional tourism offers and are specifically marketed as shopping tourist destinations.

In this respect, - at least in Germany - the market entry of the FOC was not carried out through a low price strategy and simple, cost-efficient concepts, which in turn allow aggressive pricing policies on the tenant and consumer markets as suggested by the displacement theory. Nevertheless, the German market and the German consumer were well prepared for this form of distribution: Factory outlet in its traditional form has a long history in Germany. The German consumer has well-developed brand awareness, high purchasing power and - not least due to price wars in traditional retail ("Geiz ist geil", which means "greed is good" is a famous slogan) - a corresponding price sensitivity.

In analogy to the life cycle theory it can be stated that the FOC have completed the introductory phase in Germany and enter now a phase of growth. In this respect the classification by Ulrich Eggert in his model of life cycle phases (see figure 1), certainly meets the current situation. Accordingly, an increasing number of sites as well as gains in sales and market share are expected in the foreseeable future for this distribution form. The development will also be supported by the fact that the approval authorities have learned to deal with this distribution form and thus are a little less restrictive, granting an increasing number of building permits. These positive future expectations are also reflected in the FOC developer's significantly improved access to leverage and the willingness of institutional investors to include this form in their real estate portfolios. This means Outlet Centres are a tradable real estate product, however the number of transactions will always remain comparatively low. In the medium term - that is by the year 2020 - the number of Outlet Centres in Germany can be expected to increase from the current 9 to at least 20 locations. By then maturity stage or saturation should have reached its peak. Whether this stage will be followed by a period of decline or degeneration of this distribution form, must remain open for the time being.

However, it can already be detected today that new Outlet hybrid concepts with aggressive pricing strategies appear. These are much more flexible in their choice of location, branches and brands than FOC, require a much lower so-called "critical mass", and may also constitute a re-use concept for "distressed" shopping and retail centres. There exists a recognizable demand for such affordable outlet areas on the rental market. Since low and medium-priced brands as well as commercial enterprises increasingly use outlet stores as a distribution channel, this demand for space will tend to increase more. The regional catchment areas of these Outlet hybrids near or in densely populated areas offer sufficient demand in the consumer market.

Therefore, Outlet Centres move closer to highly populated centres. The "retail sensitivity" plays an increasingly smaller role in decisions about new locations, whilst revenue and profit opportunities move into focus. The "trading up" in the design, the amenity value, the portfolio of goods and services, and the special position as a shopping tourist destination as well as - last but not least - their character as a "third



place" leads to the assumption that in the future FOC will not only enter into stronger direct competition with experience oriented shopping centres, but also that the parallel development of only regionally significant Outlet Hybrids or Value Centres aims at more price-sensitive and distance-sensitive consumers. With a much broader mix of brands these Outlet Hybrids clearly have more influence on the potential catchment areas and market position of Shopping Centres, than Outlet Centres ever could. The latter represent a quantitatively very limited niche market of the future. Outlet Hybrids are not limited to this niche.

## 2. "Factory Outlet Centre Performance Report Europe" – a big Step to more Transparency in Europe's Outlet Centre Markets

by Thomas Terlinden, ecostra GmbH, Wiesbaden (D), [www.ecostracom](http://www.ecostracom)

The performance assessment of European Outlet Centres has always been one of ecostra's core tasks in the context of location or competitive analyses. However, impartial statements on the economic performance of an Outlet Centre have been difficult to obtain for a long time and were based mostly on rumors and news from the industry and from the press. For this reason ecostra published the "Factory Outlet Centre Performance Report Europe (FOCPRE)" in 2009 for the first time.



Thomas terlinden M.A. is Project manager at ecostra GmbH and is working on feasibility studies and market analyses for retail projects in various European countries.

### 2.1 Approach and History

The European Outlet Centre market is not characterized by a high degree of transparency. Reliable information on the economic performance of specific Outlet Centres is usually in short supply. In this context about 6-7 years ago at ecostra, the idea emerged to develop a market report on the performance of Outlet Centres from the tenants point of view. The aim was to provide the market players with an additional tool to enhance their knowledge and to ensure their assessments of Outlet Centres. Overall, the aim was a contribution to improved transparency in the Outlet Centre market, e.g. in order to protect possible tenants of stores in Outlet Centres from false location decisions.

The first survey for the FOCPRE of brand manufacturers who are tenants in Outlet Centres was carried out in autumn 2008 in cooperation with CB Richard Ellis (CBRE). CBRE is the world's largest consulting company for the real estate industry, is well established internationally and is well connected with brand manufacturers. The corresponding results of the first survey were released in mid-2009.

In those days the FOCPRE was still an experiment and acceptance among market players was uncertain. After all, 19 brand manufacturers participated in the survey in 2008/2009 and provided information on the performance of their outlet stores. The results were at best of an indicative character, but could not be regarded as representative in any way. However, there was feedback from different brand manufacturers that such a tenant survey was a good and useful tool for their own expansion



planning. Encouraged by these responses and also by positive feedback from developers, operators and investors ecostra and CBRE decided to conduct annual updates of the FOCPRE. With increasing awareness and acceptance of the report the willingness of brand manufacturers to participate in the survey increased remarkably in subsequent years.

In 2012, the FOCPRE was published for the first time in cooperation with Magdus, the European Factory Outlet Centres Observatory. Magdus was founded on the initiative of the municipality of Troyes (France) and the Chamber of Industry and Commerce in 2003. The purpose of Magdus is to study the concept of Factory Outlet Centres in Europe. Magdus is located in Troyes, the "outlet capital" of France due to an agglomeration of Factory Outlet Centres and outlet stores in the region. The availability of the online questionnaire in 3 languages (English, German and French) once again led to an increased interest by brand manufacturers so that the number of survey participants levelled off at 80 to 90 brand manufacturers in recent years. This feedback rate represents a portfolio of approx. 120 brands as several companies have a multi-brand portfolio. In particular the penetration of the French market has been enhanced through collaboration with Magdus. This is reflected in an increased participation of French brand manufacturers in the survey. In the meantime the FOCPRE is fully established in the industry and has become an indispensable benchmark for many market players.

## **2.2 Methodology and Procedure of the FOCPRE**

The FOCPRE is based on an online survey of brand manufacturers who operate a minimum of 3 outlet stores in 3 different Outlet Centres in Europe. The survey addresses the expansion manager or sales manager in the brand manufacturer's headquarter and not the store manager on site, as only superior management level has the ability and oversight to assess the performance of outlet stores in different centres which are often located in different European countries.

At the heart of the FOCPRE and the underlying tenant survey lies the aspect of sales performance of single Outlet Centres in Europe. The tenant or brand manufacturer is asked to evaluate his satisfaction with the performance of its own outlet store in a particular Outlet Centre compared to the turnover of all its outlet stores in other Outlet Centres based on a rating range from 1 (= much better) to 5 (= much worse).

The portfolio for the assessments consists of all Outlet Centres in Europe which are already operating for a minimum of 2 years. This time interval ensures that the centres are already established in the market and avoids that possible off effects, such as a low occupancy rate of the centre immediately after entering the market, have distorting influence on the assessments. Then, the individual evaluations of the Outlet Centre's various tenants are aggregated into an overall average of the corresponding centre's performance. All centres that have received at least 3 individual reviews are converted into a ranking. The centres with the lowest averages express the highest satisfaction with the performance and constitute the leading centres, while sites with



high averages are at the bottom of the ranking, i.e. tenants of these centres stated more or less clearly their dissatisfaction with their store's performance.

Fig.: Excerpt of the Online Questionnaire of FOCPRE 2013 regarding the performance of Outlet Stores in selected Outlet Centres

**How satisfied are you with the turnover of your outlet stores in the following centres compared to the turnover of your stores in other Outlet Centres?**  
Please score the performance of your centre by using the following list with 1 = much better and 5 = much worse. Please tick column "No answer" for all centres where you do not have outlet stores.

 **Portugal**

|  | 1<br>much<br>better   | 2                     | 3                     | 4                     | 5<br>much<br>worse    | No<br>answer                     |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|----------------------------------|
| <b>Alcochete -</b><br>Freeport Outlet<br>(Freeport)                    | <input type="radio"/> | <input checked="" type="radio"/> |
| <b>Carregado -</b><br>Campera Outlet<br>Shopping (ESAF)                | <input type="radio"/> | <input checked="" type="radio"/> |
| <b>Movidas / Vila<br/>do Conde -</b><br>The Style Outlets<br>(Neinver) | <input type="radio"/> | <input checked="" type="radio"/> |

### 2.3 FOCPRE 2013 – Most Important Results

The current edition of the FOCPRE was released in November 2013. Exactly 80 decision makers from brand manufacturers took part in the corresponding tenant survey. The most important results regarding the performance of the Outlet Centres are as follows:

- The portfolio of the FOCPRE 2013 consists of 138 outlet centres from 22 European countries in total. 97 of these centres were evaluated by at least 3 brand manufacturers and are therefore classified in the ranking.
- For the 3<sup>rd</sup> time after 2008 and 2010, "Bicester Village" in Bicester (UK) is the most successful Outlet Centre in 2013 in economic terms. Bicester Village is operated by Value Retail and located close to the renowned university town of Oxford. The center attracts many customers from London as well as internationally and here especially Asian tourists.
- The 2<sup>nd</sup> place is occupied by the "Designer Outlet Roermond" in Roermond (NL), one of the largest Outlet Centres in Europe which is open all year round – except Christmas and New Year – and located only a stone's throw from the Dutch-German border. Accordingly, more than two thirds of the customers of the DOC are from Germany and mainly from the neighboring state of North Rhine-Westphalia. North Rhine-Westphalia has a very high potential as it is densely populated, but - with the exception of the "FOC Ochtrup" - does not have its own Outlet Centre, so that bargain hunters are surging into the neigh-



boring country instead. The "Designer Outlet Roermond" is operated by McArthurGlen.

- "La Vallee Village" in Serris (F) in on 3<sup>rd</sup> rank. The centre is also operated by Value Retail and located in the affluent suburbs of Paris adjacent to the famous leisure park "Disneyland Paris". "La Vallee Village" has – as well as most other top centres in the ranking – a distinctive focus on high-priced premium and designer brands.
- The prevailing centre type among the top 20 Outlet Centres is the "village style". 16 out of 22 centres in the top 20 were built in village style, in fact, among the top 10, 9 out of 10 centres are villages.

Chart: Top 20 Outlet Centres in the FOCPRE 2013

| Rank | Outlet Centre   | Country         | Operator                | Average Grade |
|------|---|-----------------|-------------------------|---------------|
| 1    | Bicester - Bicester Village Outlet Shopping               | United Kingdom  | Value Retail            | 1.30          |
| 2    | Roermond - McArthurGlen Roermond                          | The Netherlands | McArthurGlen            | 1.32          |
| 3    | Marne la Vallée / Chessy - La Vallée Village              | France          | Value Retail            | 1.50          |
| 4    | L'Ile Saint Denis - Marques Avenue                        | France          | Concepts & Distribution | 1.67          |
| 5*   | Noventa di Piave - McArthurGlen Veneto                    | Italy           | McArthurGlen            | 1.75          |
| 5*   | South Normanton - McArthurGlen East Midlands              | United Kingdom  | McArthurGlen            | 1.75          |
| 7*   | Kildare - Kildare Outlet Village                          | Ireland         | Value Retail            | 2.00          |
| 7*   | Marcianise - McArthurGlen La Reggia                       | Italy           | McArthurGlen            | 2.00          |
| 9    | Parndorf - McArthurGlen Parndorf                          | Austria         | McArthurGlen            | 2.08          |
| 10   | La Roca del Valles - La Roca Village                      | Spain           | Value Retail            | 2.11          |
| 11   | Corbeil Essonnes - Marques Avenue A6                      | France          | Concepts & Distribution | 2.13          |
| 12*  | Ingolstadt - Ingolstadt Village                           | Germany         | Value Retail            | 2.14          |
| 12*  | Zweibrücken - The Style Outlets                           | Germany         | Neinver                 | 2.14          |
| 14   | San Sebastian de Los Reyes - Factory Madrid San Sebastian | Spain           | Neinver                 | 2.17          |
| 15   | Wertheim - Wertheim Village                               | Germany         | Value Retail            | 2.18          |
| 16   | Ellesmere Port - McArthurGlen Cheshire Oaks               | United Kingdom  | McArthurGlen            | 2.20          |
| 17   | Serravalle Scrivia - McArthurGlen Serravalle              | Italy           | McArthurGlen            | 2.25          |
| 18   | Romans-sur-Isère - Marques Avenue                         | France          | Concepts & Distribution | 2.29          |
| 19*  | Stuhr-Brinkum - Ochtum Park Outlet Center                 | Germany         | MiRo                    | 2.33          |
| 19*  | Polgar - M3 Outlet Center                                 | Hungary         | SJ International        | 2.33          |
| 19*  | Alcochete - Freeport Outlet                               | Portugal        | Freeport                | 2.33          |
| 19*  | Street - Clarks Village                                   | United Kingdom  | Realm                   | 2.33          |

\* = the identical assessment with another Outlet Centre led to a double occupancy in the range

Source: ecostra / Magdus 2013

- A novelty is the fact that none of the German centres in the portfolio is present in the European top 10 anymore. In previous reports at least two German locations were represented in this top group. Albeit there is no German centre in the leading group, it can be stated that all German sites perform well above the European average. In this respect, there is no need to worry for investors in German Outlet Centres.
- For each Outlet Centre the average grades from the years 2010 to 2013 are displayed in the respective centre profile as long as this centre received at least

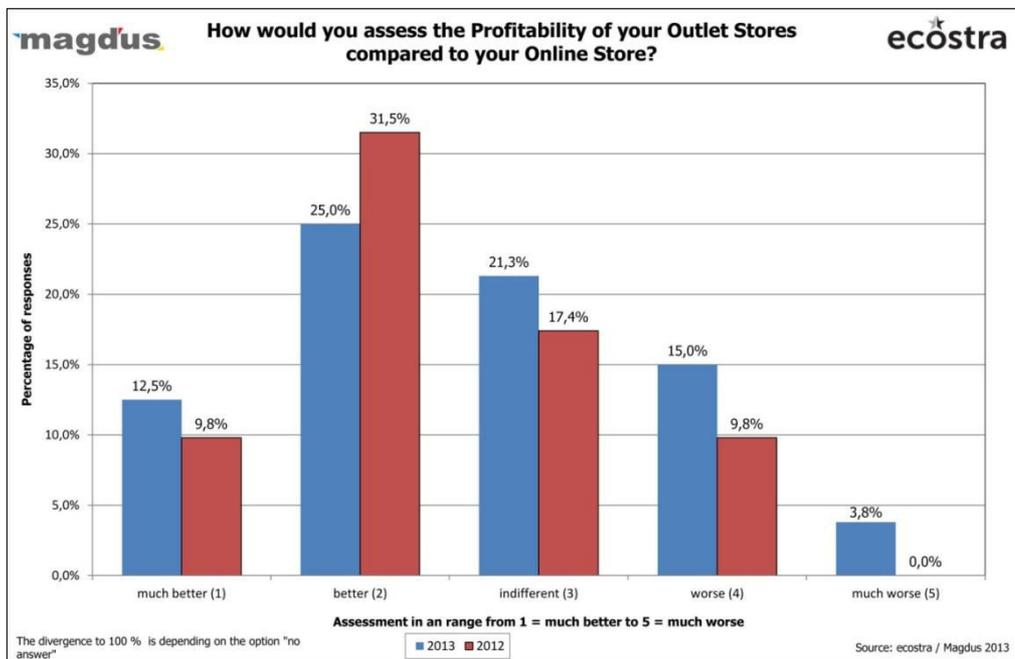


3 single assessments by brand manufacturers in the corresponding year (see the centre profiles in the chapters 11 to 36).

In addition to the assessment of their outlet store's performance, the brand manufacturers were also asked to evaluate the capability (in terms of managing, leasing and marketing altogether) of selected operators of Outlet Centres. Here, in the participating brands' point of view, McArthurGlen (Ø 2.00) is the most competent operator followed by Neinver (Ø 2.23) and Value Retail (Ø 2.32).

Other topics of the FOCPRE 2013 are - among others - planned expansion activities of the brand manufacturers, the profitability of outlet stores in relation to other distribution channels, or the importance of various location factors when leasing an outlet store in an Outlet Centre.

Chart: Assessment of the Profitability of Outlet Stores in Comparison to Online Stores



In this context it should be noted within the distribution channel of Outlet Centres, brands keep expanding strongly. In recent years, a massively increasing number of brands discovered outlet stores as an additional distribution channel that provides a possibly safe and controlled distribution of seconds, overstocks, returns etc. This ensures, goods do not end up with Ebay's power sellers or have to be sold off in discounters. Additionally, outlet stores are an increasingly profitable distribution channel for the brand manufacturers. On average each of the surveyed brands intends to open 3-4 outlet stores in 2014. Germany in particular is still a main target for brands. Almost two thirds of all brands want to expand in Germany in 2014. In France, Italy, Switzerland, the Netherlands and the United Kingdom are also strong demands for outlet locations.



In this regard the surveyed brand manufacturers assess the profitability of their stores in Outlet Centres clearly higher than the performance of their own shops in city centres. But even compared to their online stores, Outlet Centres still generate better revenues for the brand manufacturers.

Moreover the FOCPRE 2013 shows that a broad variety of location factors play a role for the brand manufacturers when leasing a store in an Outlet Centre. However, of particular importance are above all economic criteria (e.g. the turnover potential or the rent level) or hard location factors (e.g. the accessibility, the size of the catchment area or the parking facilities). To sum it up, Outlet Centres are no longer just necessary distribution channels for seconds, overstocks, returns etc., but have developed to real cash cows for the brand manufacturers.

## 2.4 Trends of Development from 2008/2009 to 2013

Since the first edition of the FOCPRE was published in the year 2008/2009 some trends and developments have emerged and consolidated:

- The number of participants in the survey for the FOCPRE increased significantly from 19 brand manufacturers in 2008/2009 to about 80-90 respondents in recent years. Meanwhile, this high response rate leads to a high validity and reliability of the results.
- Over the years, the leading group of the ranking shows a relatively large persistence of the Outlet Centres represented there. Of course, every now and then, single centres gain and enter top rankings whilst others fall out of the top 20, but a high ratio of the centres which are listed in the top 20 in the year 2013 has proofed a very satisfying performance in previous years, too. As an example the top 3 centres in the FOCPRE 2013, "Bicester Village", "Designer Outlet Roermond" and "La Vallée Village" could be mentioned. The following table displays that these three centres (more or less) always have received absolute top assessments of their performance in the previous years.

Table: Development of the Ranks and the average Grades of the Top 3 Centres from 2008 to 2013

| Rank in the Year |      |      |      |      |      | Outlet Centre                                | Ø Grade in the Year |      |      |      |      |      |
|------------------|------|------|------|------|------|--|---------------------|------|------|------|------|------|
| 2013             | 2012 | 2011 | 2010 | 2009 | 2008 |  | 2013                | 2012 | 2011 | 2010 | 2009 | 2008 |
| 1                | 2    | 2    | 1    | 5    | 1    | Bicester - Bicester Village Outlet Shopping  | 1.30                | 1.46 | 1.59 | 1.81 | 1.78 | 1.00 |
| 2                | 3    | 1    | 4    | 1    | 11   | Roermond - McArthurGlen Roermond             | 1.32                | 1.47 | 1.48 | 2.11 | 1.47 | 1.82 |
| 3                | 1    | 4    | 15*  | 6    | 2    | Marne la Vallée / Chessy - La Vallée Village | 1.50                | 1.36 | 1.69 | 2.38 | 1.80 | 1.20 |

\* = the identical assessment with another Outlet Centre led to a double occupancy in the range  
Source: ecostra / Magdus 2013

- A large-scale sales area is obviously a success factor for Outlet Centres. 16 out of the top 20 Outlet Centres in 2013 are sites with more than 15,000 m<sup>2</sup> sales area. In previous years the centres tended to have a better performance in accordance to growing floor space. Big is beautiful!



- Germany has always been by far the country with the greatest potential and the highest demand for outlet stores in Europe. An explanation for this result are not only the high number of inhabitants and purchasing power in Germany, but also the fact that Germany – despite of some recent Outlet Centre openings – is still a relatively underdeveloped Outlet Centre market with a high scope for developments.

## **2.5 Conclusion**

The aim of the FOCPRE was to contribute to more transparency in the European Outlet Centre market. Today, the report has become an industry standard and generally accepted benchmark. Many market players use the report's results as a tool in assessing the economic performance of Outlet Centres as part of their expansion activities, or to compare the performance of one's own outlet stores in a specific Outlet Centre with the overall performance of the centre. Moreover, the strongly increased acceptance by the brand manufacturers shows that the goal of improved transparency has been accomplished. For the future, annual updates of the report are planned. We want to thank all the brand manufacturers for their support in the tenant survey and would like to kindly ask for an active participation in the future. Without this support the FOCPRE could not be realised.



# 3. 30 Years of Outlet Centres: The Historic French Market Still Offers Growth Forecasts

by Dr Caroline Lamy, Magdus - European Factory Outlet Centres Observatory, Troyes (F), [www.magdus.com](http://www.magdus.com) and CL Outlet Consulting, Troyes (F), <http://cl-outlet.com>

In Europe, France was the first country to welcome the outlet concept in the 1980's. Today, it is one of the rare historic outlet markets which still offer numerous growth forecasts. The extension phases of several schemes, the projects listed on the territory as well as all numerous incomers testify of the French outlet market attractiveness.



Dr Caroline Lamy is Director at Magdus – European Factory Outlet Centres Observatory, and CL Outlet Consulting, which are both based in Troyes (France)

## 3.1 Definition

Factory outlet retailing has long been considered a marginal type of distribution until it gradually became an established feature of modern distribution, thanks to a new retail concept imported from the United States – Factory Outlet Centres. Born in the 1970's, this concept appeared in France in the early 1980's, before being exported to other European countries from the beginning of the 1990's onwards. These specialized shopping malls are made up of outlet stores selling their goods which are unmarketable on the traditional market (stocks from previous seasons, defective and end-of-line products, etc.) at discounts between 30% and 70%. Unlike in the United States, the French outlet centres do not count a mixed offer (outlet and traditional retail). In France, the outlet centres' size varies considerably from a centre to another one but the average size is about 16,500 sqm.

## 3.2 France: The Historic Market in Europe

Factory shops adjoining production sites have existed since the 1930's in France, but the modern outlet centre concept did not emerge until 1983 in France. The sector did not begin to become truly professional until the beginning of the 1990's, with the French developer "Concepts & Distribution" and the arrival of leader foreigner groups like McArthurGlen and Value Retail. The key dates below show the role of the city of Troyes (South East of Paris) as a laboratory during the 1980's and the 1990's. Despite the numerous openings in France and in Europe, especially during the last decade, Troyes still remains the European Outlet Capital (5 FOC, 85,000 sqm).

| <b>FOC in France - March 2011</b> |  |
|-----------------------------------|--|
| 1983                              | 1 <sup>st</sup> European FOC in Troyes                                   |
| 1988                              | 21 centres in France   |
| 1992                              | only 4 FOC have survived   |
| 1993                              | 1 <sup>st</sup> "Marques Avenue" centre in Troyes                        |
| 1995                              | 1 <sup>st</sup> McArthurGlen centre in Troyes                            |
| 2000                              | 1 <sup>st</sup> Value Retail centre close to Disneyland Paris            |
| 2011                              | 1 <sup>st</sup> Advantail centre near Toulouse (South Western France)    |
| 2012                              | 1 <sup>st</sup> Neinver centre near the German border (Eastern France)   |
| 2013                              | 1 <sup>st</sup> Catinvest centre near Versailles (Western Parisian area) |

Source: Magdus

These dates also confirm the expansion of the market in Eastern & Southern France as well as the interest of the European outlet leaders & French full price retail players for this historic market.

### 3.3 From Factory Outlet Centres to Outlet "Villages"

To begin with, Factory Outlet Centres consisted only in selling unsold articles, but the retail concept has evolved since the mid-1990s. The progressive orientation of the concept towards "fun shopping" has considerably strengthened the Factory Outlet Centres tourist dimension in Europe, but this trend is not significant in France.

| <b>Evolution of the concept in France: from Factory Outlet Centres to outlet villages</b> |  |  |  |  |
|---|--|--|--|--|
|   | 1 <sup>st</sup> generation centres appeared in 1980s   | 2 <sup>nd</sup> generation centres Appeared in 1990s   | 3 <sup>rd</sup> generation centres Appeared end 1990s  | 4 <sup>th</sup> generation centres 2013  |
| <b>Marketing &amp; leasing strategy</b>   | <ul style="list-style-type: none"> <li>Little involvement of developers in business management</li> <li>Heterogeneous offer</li> <li>Lack of transparency on product origin</li> <li>Low brand visibility</li> <li>Random price reductions</li> <li>No "ancillary" services</li> <li>Advertising based on word-of-mouth</li> </ul> | <ul style="list-style-type: none"> <li>Heavy involvement of developers in business management</li> <li>More rigorous brand selection (average- to high-end)</li> <li>Promotion of the brands</li> <li>Regulated price reductions</li> <li>Relatively limited service offer</li> <li>Media advertising</li> </ul> | <ul style="list-style-type: none"> <li>Improved brand selection</li> <li>Increased brand promotion</li> <li>Improved shopping comfort</li> <li>Efforts to develop customer loyalty in a highly competitive market</li> </ul> | <ul style="list-style-type: none"> <li>International brands</li> <li>International marketing tools</li> <li>Premium and luxury brands</li> <li>4- or 5-star service offer</li> </ul> |
| <b>Architecture</b>   | <ul style="list-style-type: none"> <li>Warehouse look</li> <li>Stark interior layout and furnishing</li> </ul>   | <ul style="list-style-type: none"> <li>Stylish architecture</li> <li>Layout of retail units identical to "traditional" shops</li> </ul>  | <ul style="list-style-type: none"> <li>"Village" look</li> <li>Higher concern for architecture and quality of space</li> </ul>   | <ul style="list-style-type: none"> <li>Premium "village" look or contemporary architecture inspired by the department stores</li> </ul>  |
| <b>Location</b>   | <ul style="list-style-type: none"> <li>Manufacturing cities</li> <li>Large metropolitan areas</li> </ul>   | <ul style="list-style-type: none"> <li>Manufacturing cities</li> <li>Large metropolitan areas</li> </ul>   | <ul style="list-style-type: none"> <li>Tourist areas or areas located on the path of tourist flows</li> <li>Large metropolitan areas</li> </ul>  | <ul style="list-style-type: none"> <li>Tourist areas or areas located on the path of tourist flows</li> <li>Large metropolitan areas</li> </ul>                                      |
| <b>Visitors</b>   | <ul style="list-style-type: none"> <li>Primarily local customers</li> </ul>  | <ul style="list-style-type: none"> <li>Primarily local customers</li> <li>Larger catchment area</li> </ul>   | <ul style="list-style-type: none"> <li>Primarily tourists</li> </ul>   | <ul style="list-style-type: none"> <li>Primarily international tourists</li> </ul>   |

Source: Magdus



Four centres generations can be distinguished (see figure above). This typology, which brings to light the qualitative evolution of the concept, is based on four criteria: centres marketing & leasing strategies, their architecture, their location as well as their customer base & target. All European countries did not experience these four generations of centres – only France has actually experienced the first generation.

### 3.3.1 1980s: a first generation marked by a dramatic restructuring

In Europe, the outlet concept appeared in France with the opening of two centres called "ADIS" in Troyes (Eastern France) in 1983 and "L'Usine" in Roubaix (Northern France) in May 1984. At this time, the success of this new retail concept drew the attention of numerous property developers who saw an opportunity to widen their activity thanks to this market, in which they identified great potential for growth. The concept



development reached its peak in 1988; there were twenty one centres in France. This first wave of settlement was poorly managed and ended in numerous failures. Out of these

21 centres, 17 closed or were reconverted less than two years later. Several factors contribute to explain this restructuring, in particular the lack of professionalism of a great majority of developers, which turned out to be a handicap for the centres sustainability.

### 3.3.2 Beginning of the 1990s: a second generation which marked the concept renewal

Following the restructuring of the outlet sector at the end of 1980s, a new centres generation appeared in France in the early 1990s. This process was initiated by a small number of specialized French (Concepts & Distribution) and international (McArthurGlen, Value Retail) developers.



This sector professionalization was characterized by a more rigorous management. To make sure that customers would return, several guarantees were given regarding the quality of the offer. The tenants of the retail units had to

make a commitment to developers to offer customers price reductions between 30% and 70%. This concern for transparency was matched by the decision to offer middle-to up-market branded goods. In France, during the 1990s, developers have preferred to open centres in cities which, like Roubaix and Troyes, had a rich past in the textile industry and a strong tradition of factory shops.

3.3.3 End of the 1990's: a third generation characterized by a village architecture inspired by the theme parks Main Streets

The centres upscaling is reflected in the upper range evolution of the offer. It also shows in the architectural language adopted by these centres as well as in the conception and fitting of the shops. For the latter, the minimalist treatment has disappeared to the benefit of a more sophisticated decorum, cultivating a certain resemblance with the "traditional" shops. As for the centres, the concern is both to break with the image of the first outlet generation (warehouses) and, for each of them, to distinguish itself from its competitors. The village architecture, inspired by the Main Street of theme parks, and the name "village", currently fashionable in Europe, testify to the deliberate staging of these centres. This architecture style is the signature of major developers like McArthurGlen and Value Retail.



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3.3.4 2000s: a fourth generation characterized by the "fun shopping" trend

Following the example of other retail concepts, especially the department stores, outlet centres have recently upgraded their offer in terms of brands & services. The purpose is still to offer bargains but to propose premium & luxury brands only and an unforgettable high end visit to the customers, especially the international ones. If this strategy is the basis of the Value Retail Centres' success in Europe, it is quite rare in France. Indeed, "La Vallée Village" scheme is an exception in the French Outlet market. The large part of outlet centres belongs to the second and third outlet generations. Recently, new developers have decided to strengthen the tourist dimension of their outlet centres and projects and to distance themselves from their competitors thanks this new outlet generation. The One Nation scheme opened on December 2013 in the Western Parisian area represents this new French outlet centre generation.



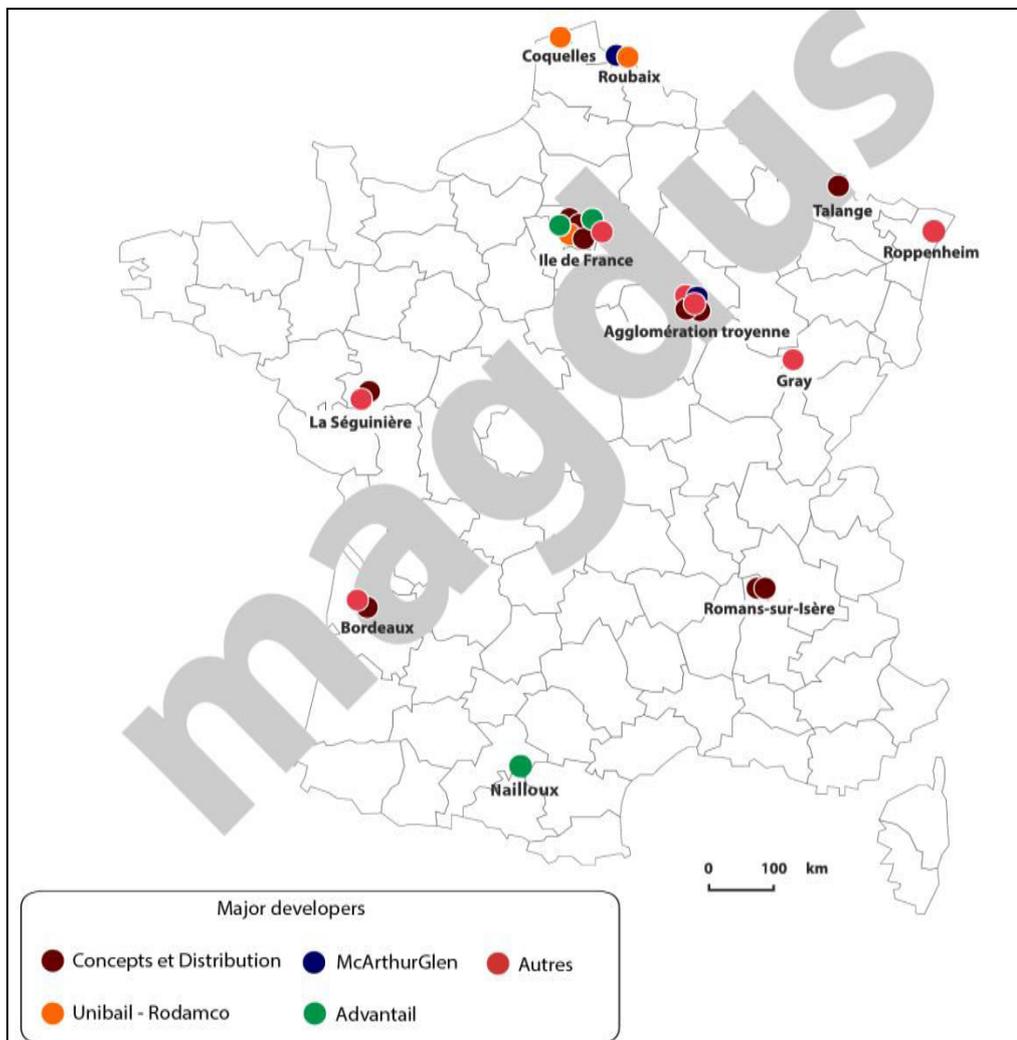
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### 3.4 Outlet Centres in France: Facts, Figures & Trends

The outlet centres' setting-up analysis on the territory shows a strong centres concentration in half North part of the country, in particular within three big poles which concentrate 80 % of the commercial floor dedicated to this market: Ile-de-France and Nord-Pas-de-Calais regions and the Troyes city.

Map: A market marked by a North /South imbalance which tends to be reduced



Source: Magdus; status: March 2014

#### France: key outlet figures 2013

|  |                 |
|--|-----------------|
| Number of centres                          | 24              |
| Selling area (sqm)                         | 340,000         |
| Number of retail units                     | more than 1,500 |
| Estimation employees number                | more than 5,000 |
| Estimation turnover (millions € incl. VAT) | 1,300           |
| Share of the clothing market in France     | Less than 5 %   |
| Projects being studied or in the pipeline  | 30              |

Source: Magdus



This last one presents the peculiarity to display as the European outlet capital with 85,000 sqm dedicated to the sector. If the centres created in the 1990s were mostly localized in the industrial tradition cities, the recent centres and the projects are implanted today preferentially in tourist zones or benefiting from major tourist flows as well as in suburb of the big towns.

In this context, the half South part of the country instigates recently the developers' greeds, and made today figures of an "El Dorado" as give evidence of it numerous projects. The setting up of these projects should contribute to a partial rebalancing of the centres on the territory.

### 3.5 A concentrated Market

In France, the Concepts & Distribution group dominates the outlet market with nine centres and works at present on several projects (like in Aubergenville, Colmar, etc.). The Unibail-Rodamco group, specialized in the full price shopping centres, has developed its activity in the outlet sector. It manages three outlet centres but has no outlet projects anymore in France. Advantail is the new outsider of the French market thanks the opening of the Nailloux Fashion Outlet scheme in Southern France in 2011 and its recent contracts to manage the Usines Center Paris Nord 2 scheme in 2012 and the One Nation scheme opened on December 2013. The McArthurGlen group, the current leader of the European outlet market, manages two centres in Troyes and in Roubaix, but has several projects in France (in Normandy and South Eastern France). Finally, the group Value Retail which accounts nine outlet villages in Europe, opened in 2000 the « La Vallée Village » centre, near the theme park Disneyland Paris.

| <b>The leader developers in France (March 2014)</b> |                    |                |
|---|--------------------|----------------|
| <b>Developers</b>                                   | <b>Nationality</b> | <b>Centres</b> |
| Concepts & Distribution                             | French             | 9              |
| Unibail-Rodamco                                     | French / German    | 3              |
| Advantail   | French             | 3              |
| McArthurGlen  | British            | 2              |
| Value Retail  | British            | 1              |

Source: Magdus

The outlet sector in France as well in Europe is marked by an increase and a diversification of its actors. The success of the outlet concept draws the attention of new operators, developers, investors, marketers, brands representatives who see an opportunity to widen their activity thanks to a market offering an attractive potential of growth. National and international outlet developers have recently appeared in the French outlet market like Advantail and Neinver. Several "opportunistic" local and national operators work in order to open their own outlet centre. And an increasing number of French and foreign investors such as Corio, Aew Europe, Resolution Property and Catinvest have also targeted the French outlet market.

Finally, some dynamic retailers have appeared recently and performed very well in France like Fossil, Garcia Jeans, Superdry, American Vintage, Little Marcel, Crocs, Bonita, XTI, Karl Marc John, Liu-Jo, Les Petites, Eleven Paris, Louis Quatorze, Du Pareil



au même, Orchestra, etc. Among these new incomers, several new retailers have penetrated the market thanks the 2 last openings in The Style Outlets Roppenheim and One Nation Paris schemes, especially new sport brands such as Mizuno, Rossignol, Lolë, The Kooples Sport, Pearl Izumi, X-Bionic, etc. Developers are looking for new brands to complete their leasing offer like Kusmi tea, Godiva, Starbucks, Kiko, The Body Shop, etc.

### 3.6 Trends

To attract customers as well as new and fashionable retailers, some centres born in the 1980's have been recently refurbished and developers have upgraded their leasing offer. Their marketing tools, their websites and logos for instance, have been modernised.



Source: Magdus



The facade of the Usines Center scheme in Vélizy-Villacoublay (southwest Parisian area) has been colored in red in 2012 in order to be more visible from the Paris ring road. The barcodes bring modernity to the building. The name of the scheme has changed to mark these changes (L'Usine Mode et Maison) but Unibail-Rodamco has kept the reference to the factory (L'Usine) established since the opening of the scheme in the mid-1980s.



"Usines Center Paris Nord 2" logo from 1985 to 2012



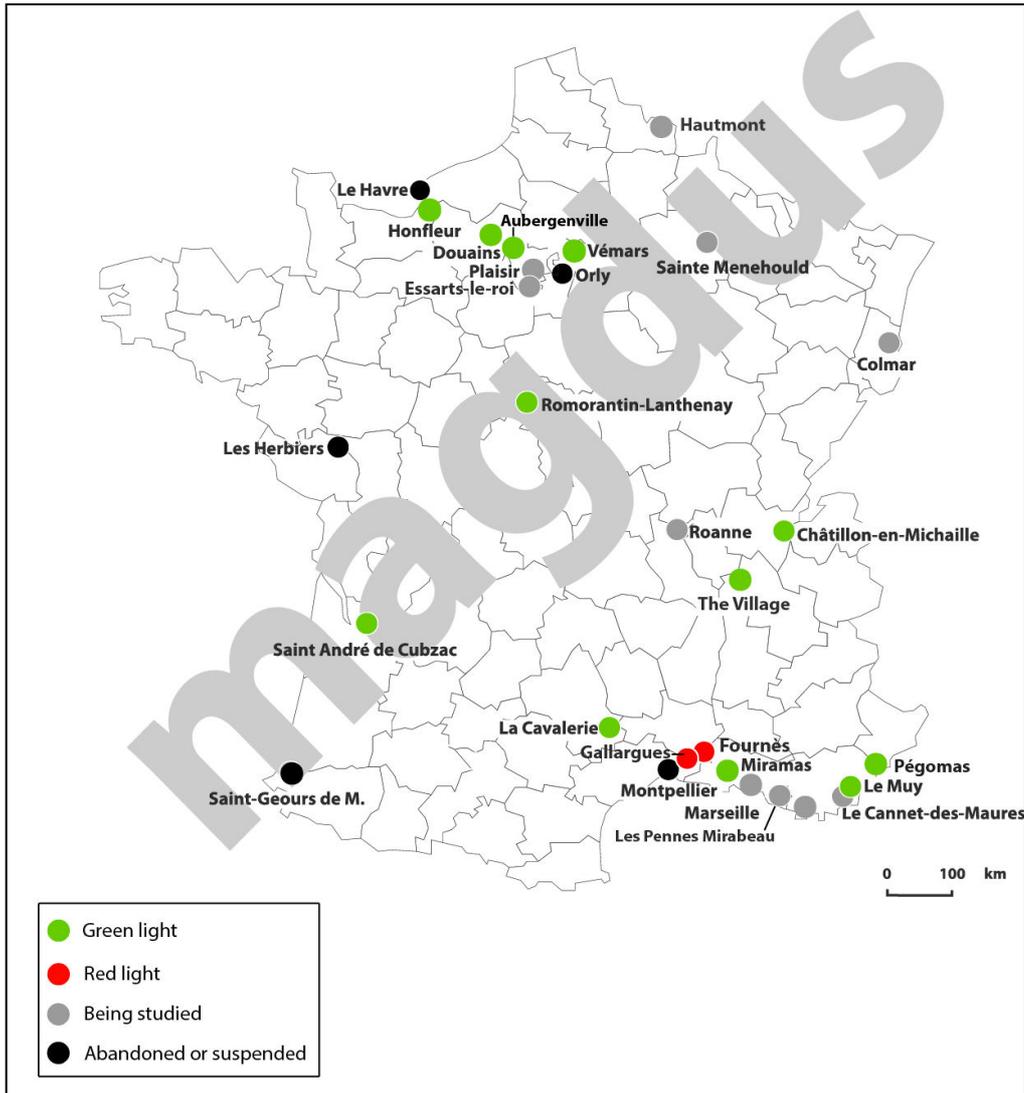
New logo with the mention outlet added to attract the foreign customers who visit Paris.

### 3.7 Forecasts

The French market lost its second leader rank in the middle of the 2000s, has lagged behind the dynamic markets such as Italy and Spain because of its stringent planning laws, allied with strong opposition from the traditional retail sector - which sees factory outlet malls as a threat to their business. Since the beginning of 2000s, the sector has been marked by an openings slowing down despite a significant number of projects. Nevertheless, the number of existing centres exceeds the forecasts made in the 1990s. Indeed, several outlet experts agreed to say that the French market was not big enough to welcome more than 15 centres. Today, Magdus counts more than thirty

projects in France – accepted, exercising an appeal in CDAC (Commission Départementale d'Aménagement Commercial) or CNAC (Commission Nationale d'Aménagement Commercial) or to the study – concerning a sales area of more than 350.000 m<sup>2</sup>. If the opportunities of growth remain still numerous, in particular in the Southern France as well as in Western France, the difficulties bound to the opening authorizations remain strong, as gives evidence of it the significant number of abandoned projects in the past 15 years. The projects are today more qualitative than in the past with international attractive brands, sustainable architecture, increased services in order to target retail tourists with strong purchase power.

Map: Outlet procets in France – March 2014



Source: Magdus; status: March 2014

All the projects will not thus be opened: the outlet sector is complex and requires a real professionalism (in particular a good knowledge of the outlet concept and its specificities, the brands mix, etc.). Moreover, towards the increase of the projects number (and thus the spaces to be leased) it is the brands representatives who decide on the opening of a project. After that, the customers make the retail success of



centres which have to offer an original, an attractive and a renewed offer, a qualitative architecture, a strong purchase comfort and present a pleasant shopping experience dimension to answer to their expectations.

Additionally to the grand openings, new extension phases have been made or are in the pipeline for several centres (like in Cholet, Talange, Corbeil-Essonnes, Troyes). This phenomenon testifies of the attractiveness and the success of the French outlet market with the customers but also the investors.

### **3.8 New Stakes**

In France like in Europe, outlet centres are an unfailing success and the outlet market has excellent growth prospects. The future of this concept is all the more promising in a gloomy economic context, since the centres constitute "fallback values" for consumers. The future of shopping tourism in France and Europe will mostly depend on these facilities which tend to strengthen their tourist dimension (and thus their attractiveness) through "destination centres". Nevertheless, if the outlet centres success in France like Europe is significant, the players have to pay attention to the risk of banalization, because these centres success rests mostly on their scarcity. Besides, brands at discount prices are and will always remain the basis of the centres craze. For certain players in the sector, too radical departure from the original marketing strategy (clearance sales) could generate confusion among consumers. Besides the loyalty to the original concept, developers will have to be different from their competitors, to innovate to surprise their customers, to be reactive to answer to their expectations, to communicate like brands (like Value Retail group with its "Chic Outlet Shopping villages" network and more recently like Neinver with the label "The Style Outlets") and maybe to build partnerships, in order to see their centres successful. The large part of the outlet centres schemes are getting old and have to reinvent themselves to be able to compete with the French and foreign outlet competitors but also with the e-business sites.

# 4. The Outlet Centre Market in Russia

by **Béatrice Pubellier**, **BrandCity Outlet Centre, Moscow (RU)**,  
[www.outlet-bc.ru.com](http://www.outlet-bc.ru.com)

"I cannot forecast to you the action of Russia. It is a riddle, wrapped in a mystery, inside an enigma; but perhaps there is a key. That key is Russian national interest."

*Winston Churchill's in a BBC broadcast in October 1939*



Béatrice Pubellier is Managing Director of the BrandCity Outlet Centre in Moscow in Russia.

## 4.1 A giant in transition

World largest country extending on 17 million km<sup>2</sup>, Russia is twice the size of the USA and covers 9 time zones. Aspiring to follow globalization and a bridge between Europe and Asia, Russia is today part of the BRICS alongside China, India, South Africa and Brazil.

The Russian economy has 4 main features:

1. The Russian economy is going through a transition but still remains under the influence of the Soviet period;
2. Due to the decline of the industry since the collapse of the USSR, Russian economy is concentrated on the exploitation of natural resources, and tends to be a rent-based economy, with all the negative political and social consequences such as corruption, social disparities and so on;
3. The economy is slowed down by its ageing population;
4. By controlling the main companies of the country, the State has been playing a major role in the economy, with the worrisome results that are occasionally being unveiled (Russia ranked 133<sup>rd</sup> out of 176 countries on a classification of the countries according to the Corruption Perceptions Index published by Transparency International in 2010).

Russia might not be any longer one of the super leaders of the world but still is among the top 10 economies of the world, thanks to its wealth of natural resources: A Gross National Product (GNP) of 2014 billion USD places it as the 8th largest economy of the world and 5th/6th largest one in term of Purchasing Power Parity (PPP).

The Russian economy underwent tremendous stress as it moved from a centrally planned economy to a free market system. Difficulties in implementing fiscal reforms aimed at raising government revenues and a dependence on short-term borrowing to finance budget deficits led to a serious financial crisis in 1998.





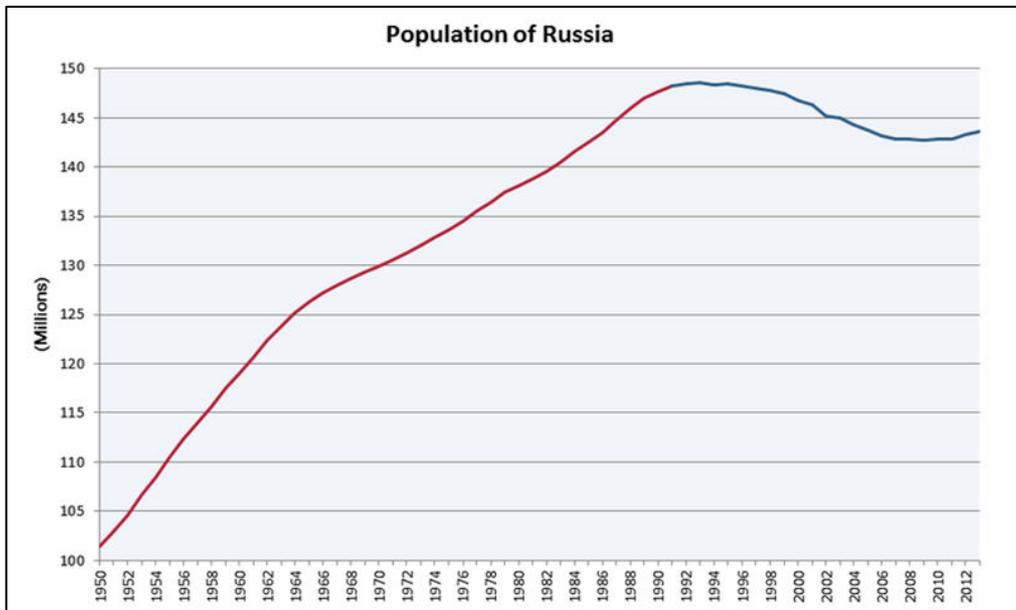
In late 2008 and early 2009, Russia experienced the second recession after ten years of a rising economy, until steady growth resumed in late 2009 and 2010. Despite the brief but deep recession, the economy has not been as seriously affected by the global financial crisis, largely because of the integration of short-term macroeconomic policies that helped the economy survive, as well as low levels of sovereign debt.

Russia, however, appears to have weathered the crisis relatively well. As of 2009 real Gross Domestic Product (GDP) increased by the highest percentage since the fall of the Soviet Union at 8.1 %, the ruble remains stable, inflation has been moderate, and investment began to increase again. Since then, the growth has remained positive but slower around 4 % a year. Although Russia's growth outlook for 2013 is positive, it is well below the strong growth outturn of 2012. Following 3.4 % GDP growth in 2012, the World Bank revised its 2013 growth projection for Russia down to 1.8 %. The slowdown was a result of weaker demand due to a combination of external and domestic factors, some cyclical, and others structural: Russia's high dependence on oil and gas exports and with it, its exposure to commodity-price volatility; structural challenges to the Russian economy and its growth, such as non-competitive sectors and markets, are another important factor, especially as the economy seems to operate close to its current capacity limit; weakness in domestic demand; external demand remained sluggish, weakening the export performances in the first quarter of 2013.

Despite the slowdown this year, the Russian economy is projected to accelerate to 3.1 % growth in 2014. However, this moderately positive outlook is subject to downside risks, especially with the current Ukrainian crisis.

## 4.2 The Russian consumer

According to an official estimate for 1 January 2014, the population of Russia is 143,700,000. The population hit a historic peak at 148,689,000 in 1991, just before the breakup of the Soviet Union, but then began a decade-long decline, falling at a rate of about 0.5 % per year due to declining birth rates, rising death rates and emigration.



Not a country for an old man. The disparity in the average lifespan between genders in Russia is the largest in the world. Women live 9–12 years longer than men, while the difference in lifespan is typically only five years in other parts of the world. While medical sources name mass privatization, and the neo-liberalist shock therapy policies of Yeltsin administration as key reasons of falling life expectancy of Russian men, other sources claim alcoholism explains the large difference in gender mortality levels in Russia. As of 2011, the average life expectancy in Russia was 64.3 years for males and 76.1 years for females.

According to the WHO 2011 report, annual per capita alcohol consumption in Russia is about 15.76 liters, fourth highest volume in Europe (compare to 13.37 in the UK, 13.66 in France, 15.6 in Ukraine, 16.45 in the Czech Republic, etc.). The turmoil in the early 1990s caused life expectancy in Russia to steadily decrease while it was steadily increasing in the rest of the world. Recently however, Russian life expectancy has again begun to rise. Between 2006—2011 the male life expectancy in Russia rose by almost four years, increasing the overall life expectancy by nearly 4 years to 70.3.

Russia's population density is 8.4 people per square kilometer, making it one of the most sparsely populated countries in the world. The population is most dense in the European part of the country, with milder climate, mainly around Moscow and Saint Petersburg, with 80 % of the population living there. 74 % of the population is urban, making Russia a highly urbanized country, with 13 cities over 1 million inhabitants.





Moscow is by far the main population center with nearly 12 million inhabitants officially registered and 18 with the illegal inhabitants and with 27 million people going around the city each day.

#### 4.3 A country with 3 consumer profiles

1 % of the population owns 71 % of private assets. As a result of their turnmoiled history, has emerged a new middle class with a lack of savings and wealth. With high vulnerability they are catching up with the lack of everything they suffered for from decades and therefore are over consuming the Fast-Moving Consumer Goods (FMCG).

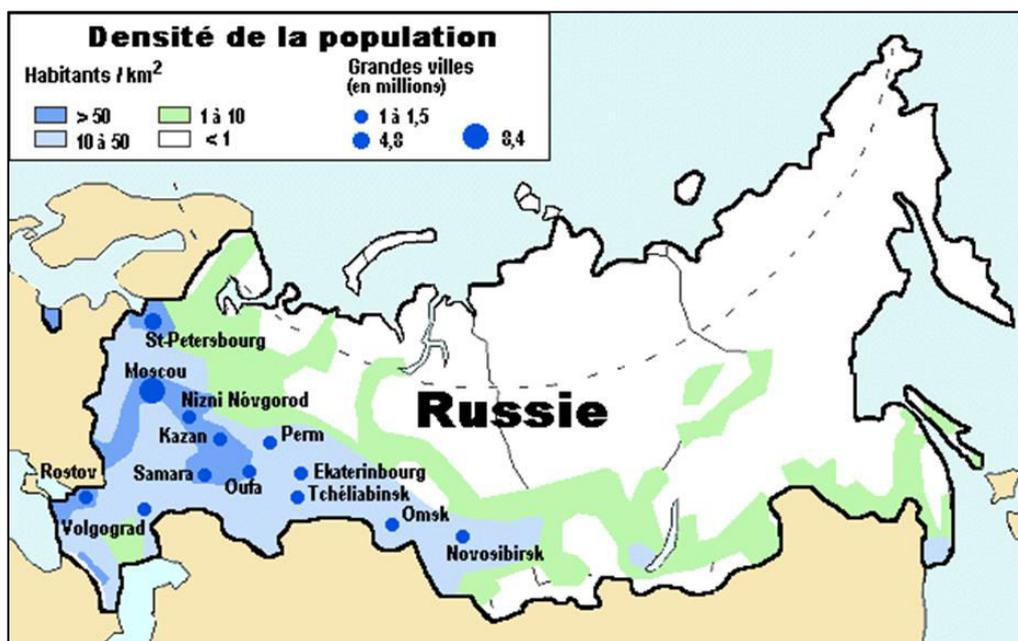
It is considered that a minimum income of 1,500 euros per month to enter the middle class, which represents between 15 and 20 % of the Russian population and 35 % of the inhabitants of Moscow. That middle class starts with civil servants or local government officers on top of the pyramid, followed by businessmen and people with a job in a city. They are addicted to their smartphones and perpetually linked to their social network, from Facebook to Twitter or Vkontakte.

Excluding oligarchs and people with very high income, there are 3 main categories of consumers:

- The 1st one represent 50 % of the population and is living in the margin of the society, they live in small towns and own very little. They do not adapt to the market not only because they cannot afford it but also because the market did not come to them.
- The second group is composed of 40 % of the population and live in cities bigger than 100,000 inhabitants. They are used to go to shopping malls, are usually executive or civil servant at high level. They own a car or two; sometimes they have a credit on an apartment and are between 40 and 50 years old.

- The third group finally is the young generation. They are cosmopolite, use Internet and go to cafés, bars and consume much more than the 2 other groups. They do not go to movies, they download them.

There is more difference between these groups than, for example, the Parisians and the Muscovites. That is why the approach is not always clear for Western firms, which most often elaborates a global politics for Russia. Such politics can work on the second group and remain completely foreign to the first and third.



There are also regional disparities:

- On one side you have the consumer living in Moscow and Saint Petersburg; These are active people, travelling a lot, into innovation; They are richer, with more experience and sophistication; They are now used to a “Western” service as the modern distribution is dominating the market.
- On the other side you will find the rest of Russia. The level of life is lower, the consumer is more traditional and more family-oriented and does not trust so much the government, the banks and does not use a lot credit. The growth of modern distribution started in 2007 and in a lot of middle-size cities, the open markets are still the dominating channel of distribution.

As of 2013, Russians spent 60 % of their pre-tax income shopping, the highest percentage in Europe: it even reaches 75 % in Moscow. This is possible because many Russians pay no rent or house payments, owning their own home after privatization of state-owned Soviet housing. The purchasing behaviour remains compulsive, young Russians want international brands with the conviction they are buying quality and modernity. They are also very attentive to the provided services.



#### **4.4 A picture of the Russian distribution channels**

Historically, together with the industrialization led by the tsars at the end of the 19<sup>th</sup> century and during the first years of the revolution, Russia saw the birth of a middle class centred on retail. Therefore and as a consequence of the purges monitored by Stalin in the 30s, the establishment of state controlled distribution and Russia lost the traditional "pop and mom" stores.

At the collapse of the USSR, goods were sold through 4 types of stores, which are still present nowadays:

- Department stores, usually called "univermag", mainly selling textiles, accessories, cosmetics, housewares – still 8 % of the market today
- Supermarkets called "universam", mainly selling food and FMCG
- Open-markets selling food but also FMCG, textiles, appliances – still representing 20 % of the food market nowadays
- Convenience stores, which were owned by the State and were still benefiting from State subventions after the collapse in the 90s and still represent 25 % of the food market

With the privatisation of the country in the 90s, emerged new types of retailers, including kiosks which became a significant channel of distribution for food, FMCG, tobacco and alcohol. These past 3 years, the city government have decided to cancel these kiosks in order to clean the streets of the cities.

The first Western-style supermarkets were created in the early 1990s in Russia and targeted wealthier classes.

For years, major European retailers were afraid of coming to Russia, due to low incomes of the population and mainly, corruption and administrative difficulties. Metro and Auchan are the first Western retailers to penetrate Russia in 2001 and until now are still benefiting from being the first on the market. With 50 hypermarkets opened, the Auchan group remains an exception in the success of their implementation in Russia. According to them, Auchan holds the leading position in the hypermarket segment in Russia and the 3rd place in the food distribution behind the Russian groups X5 Retail and Magnit.<sup>1</sup>

#### **4.5 Emblematic historical Moscow department stores**

The GUM or State-owned Universal Store covers 80,000 m<sup>2</sup> and 200 boutiques is located on the Red Square. Muscovites nicknames the department store the price exhibition, referring to the former function of GUM that was an exhibition of regional products to employees of the government.

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<sup>1</sup> Source: agency InfoLine and Retailer magazine

The TSUM or Central Universal Store now belongs to the Mercury Group. It is located in the centre of Moscow, next to the theatres, and retails more than a thousand different brands. Its nick name in Moscow is the store with the 1,000 USD price tags.



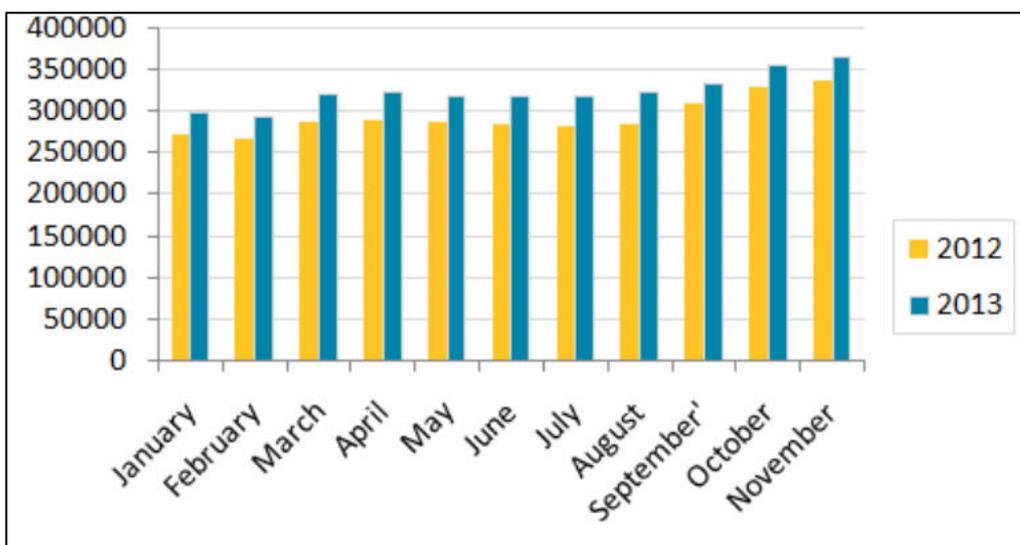
Source: 000 Way MKAD

#### 4.6 Retail turnover

The Russian retail turnover is 200 billion USD according to federal official figures and grows 13 % a year. But according to private surveys, in fact the turnover could be over 300 billion USD and would grow 30 to 40 % a year.

According to Oxford Economics, Russia holds the second position in Europe in terms of annual retail turnover growth reaching 3.7 % these past 3 years through to the end of 2016. This compares with an average of 1.9 % across major European countries.

In the meantime GVA Sawyer confirmed that retail commerce turnover in Russia during the period of January – August 2013 amounted to 14,934.4 billion roubles (103.9 % comparing with last year's same period).



The dynamics of the retail commerce turnover, million roubles. 2012-2013, Moscow. Source GVA Sawyer

In this context, textile represents only 13 % of the whole retail turnover. In this segment, middle market is 41 %, Premium brands 8 % and luxury market 16 %.



#### 4.7 The biggest players in the Fashion and Accessories industry

**Mercury Group.** Founded in 1993, owners of the TSUM and the Tretiakov Passage in Moscow centre as well as the Barvikha Luxury Village located in the poshest area of Moscow suburbs, the Mercury group also are the exclusive distributors of many high-end fashion brands such Tom Ford's , Lanvin, Celine, Chloe, Ralph Lauren or S.T. Dupont. The Mercury Group prevails in the Fashion market in Russia. They also have stakes in Dixy, the 4<sup>th</sup> largest food retailer in Russia. In addition to the DIXY Group, its core assets are:

- Megapolis Group of Companies, Russia's largest distributor of FMCG products and one of the world's largest distributors of tobacco products;
- SovInterAutoService, one of the largest trucking companies in the Commonwealth of Independent States (CIS) backed by more than 30 years of truck transport within Russia in Western and Eastern Europe and Asia;
- The Mercury Development group of companies, known for projects such as construction of class A+ multipurpose Mercury City Tower at Moscow City development and M.V.Frunze Resort in Sochi, and others;
- OAO Gorevsky GOK, Russia's largest polymetal (lead, zinc) producer and smelter;
- Turboholod Manufacturing Facility, a developer of turboexpanders for the oil and gas industry;
- The Degtyarev Plant, a manufacturer of civilian and military equipment.

The total turnover of the group was estimated at 15 billion USD in 2010.

**Bosco di Ciliegi.** Established in 1991, Bosco di Ciliegi is a leading group on luxury clothing in Russia. They run a network of 50 mono-brand boutiques: Etro, Kenzo, Max Mara, Marina Rinaldi, Max and Co, Alberta Ferretti, Moschino, Ermanno Scervino, Pomellato, Mandarina Duck, La Perla and many multi-brand boutiques of their own, such as Bosco Family-Donna-Uomo-Bambino-Scarpa and Sport. Bosco di Ciliegi stores are located in the historic shopping centres of Moscow such as GUM and Petrovsky Passage, as well as at Vesna in Novy Arbat, in Smolensky Passage, and in Hymeney shopping centre. Bosco di Ciliegi stores can be also found in others cities that are St. Petersburg, Samara, Yekaterinburg and Milan.

Bosco di Ciliegi universe includes Articoli perfumery and cosmetics stores, Articoli Salon&spa and Dior Institute beauty salons, Sublime by Bosco jewellery and watch boutique, dental Bosco Clinica, as well as Bosco Restaurants such as Bosco Cafe, Bosco Bar and Bosco «U Fontana» coffee corner on the Red Square in GUML'Altro Bosco Cafe in Petrovsky Passage, as well as Bosco personal style advisory.

Since 2005 Bosco di Ciliegi Company is the principal shareholder of GUM on the Red Square in Moscow.



The company produces collection of sports and active rest apparel under BOSCO brand which is the official sportswear of Russia Olympic Team.

The latest known figures of turnover of Bosco di Ciliegi are dated 2008: 450 million USD.

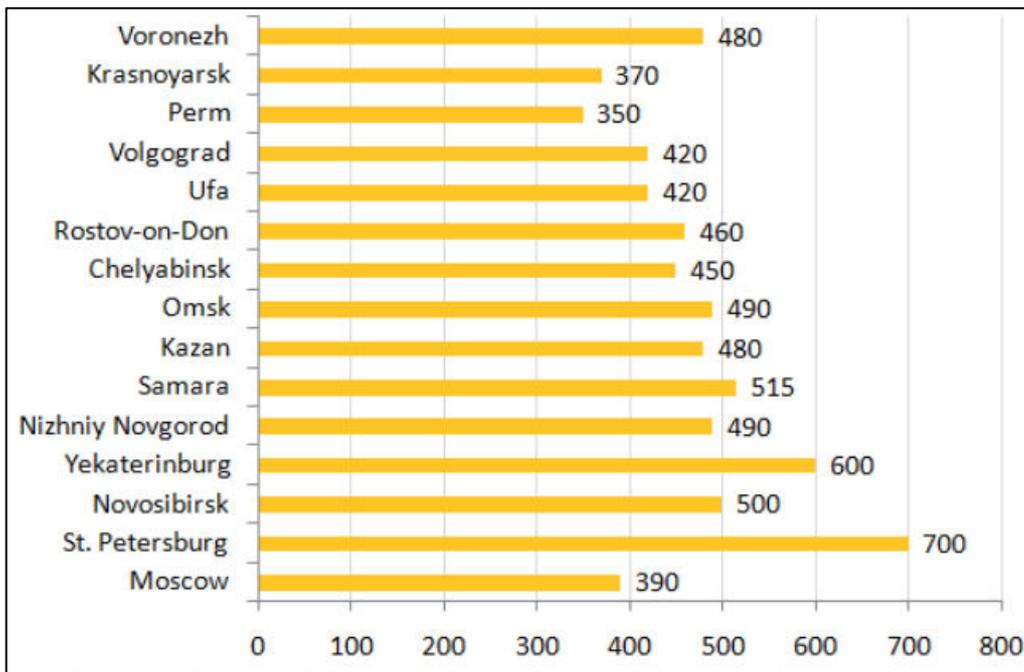
**JamilCo.** Founded by Khaled Jamil in 1993, JamilCo is a major player in the Russian market of luxury and retail market. The company is distributing international high-end and premium brands such as Burberry, Chaumet, Coach, De Beers, Hermes, JM Weston, John Lobb, Salvatore Ferragamo, Sonia Rykiel, Wolford or Swatch. JamilCo owns over 140 exclusive stores in Moscow, St. Petersburg, Yekaterinburg and Rostov and has a well-developed distribution network of more than 600 stores in the largest cities of Russia.

**Other significant players in the fashion retail industry.** International brands present on the market: Etam, Tartine et chocolat, Dim, ZARA, Mango, Alain Manoukian, Esprit, Promod, Mexx, and Benetton.

**Other Russian distributors.** Orchidée Sauvage, Estelle Adony, Eurogroupe, Firma Enfor, RTG, Artegroup, ABM-Holding (retailers Modny Bazar and Fresco)-

**Local brands.** Finn Flare, Sela, Gloria Jeans, OMSA, Palmetta, Pompea, Millavitsa, Gratiya.

Chart: Availability of quality retail space (GLA) per 1,000 residents in 2013



Source: GVA Sawyer

The largest offer's growth is expected next year in Moscow, when according to developers' plans more than 800,000 sqm. GLA will increase commercial areas provision up



to 470 sq. m. per 1 000 people. This still will be lower than average European level and leaves plenty of room for new retail formats such as **Outlet Centres**.

#### **4.8 A risky stake in the Russian distribution landscape**

The concept of Outlet Shopping is a recent addition to the Russian distribution landscape. As the first Outlet mall was opened in Moscow in 2012, the current outlet villages are built on a more or less identical model and were opened in 2012 and 2013.

It is quite bold in so far as it finds its place in a context perceived by European retailers as complex and often doubtful. This fear is rooted in ignorance of the Russian market and its rapid evolution. The inability to penetrate this market and the opacity of operations during the past decades are still an unsolved issue despite the repeated governmental efforts and the opening of the market to retailers wishing to make a direct implantation.

The reluctance of timid international retailers is worsened by the difficulty of communication with major distributors and local franchisees. Also, finding the right information for the opening and management of a local business is complex.

#### **4.9 The right target for Outlet malls in Russia**

First of all, the Russian consumer is known for his excessive taste for fashion and trendy accessory. This is mostly true. In this context, the branded items from the previous collection are figures of antiquity. The outlet market may therefore seem doomed to failure.

The second misconception is that this market is dominated by luxury brands because they are highly visible in Moscow and thrive in cities such as St Petersburg, Krasnoyarsk, Tyumen, Yekaterinburg, Rostov-on-Don and so on. For sure the buoyant luxury market has a very bright future. However, this display of ostentatious wealth blinds the Western world which does not see the vast Siberian forest still taken in the snows of its frantic effort to upgrade in the field of consumption.

The new Russian consumer, in his spree of purchase is and remains an informed consumer. He is familiar with international brands and fashion trends, even though for cultural reasons, criteria decline differently. In this eventuality, he does not hesitate to take a plane to go and make his purchases in Europe. Many Russian airlines offer 1 Day Round Trip to Paris or Milan. If his living standard does not authorize him to fly to Europe, this consumer will find in Outlet Shopping the ideal medium to get dressed as he wishes for lesser cost. Certainly prices remain higher than in Europe but as much as the offer in apparels is about 20 - 30 % higher, the price of purchases in Outlets will remain favorable. The promoter's effort in Russia must focus on information and education of the consumer today. In the same capacity as the identification in Western models, the Russian consumer searches just as much a lifestyle and a service.

The latter elements of information are doubly interesting for the retailer.



On the one hand we have this tiny closed club of very wealthy clients who will buy anyway the latest products from prestigious brands. Although they know the Outlet concept through their travels in Europe and the United States, they are not concerned by the Outlet concept. On the other hand, there is a key element in the greed of consumption of Russian youth for the most desirable brands in their eyes, i.e. slightly above their means.

Median classes, vastly superior in number, will turn to mid-range brands and mass-market provided they are international, meaning non-Russian. In that case, what matters is to show the brand name and not its latest model: in such scenario, the outlet channel makes plenty of sense.

Apart from the opportunity for retailers to offer a second life to their unsold items, wisely making them profitable, the relevance of the outlet channel for the end-users comes from making desired brands affordable to these targeted customers.

#### **4.10 The Outlet Centre – a perfect fit to the current demand in stock distribution system**

The most widely used management system for unsold product in Russia is to simply leave the goods in the stores until the end of the stock. This outdated strategy engorges shops and does not highlight new products, even throwing some doubt on the success of the brand. Most retail chain managers are convinced, however, that they do not need an additional outlet store dedicated to selling the unsold items. Some retailers even claim they do not have any overstock, when in fact the parallel distribution networks abounds. A room for improvement is expected in this area in the coming years.

Not a single retail chain destroys its stock in Russia as do large groups such Hermes, Chanel or Prada. Many sell their unsold items to wholesalers which clear them on the outdoor markets or in the regions, and not a lot recycle them. Many websites bloom and disappear.

The first results in terms of Outlet villages in Moscow show that many of the outlet stores within the centers provide pretty much the same offer as the Street Retail. The reason for this misunderstanding being that often enough, brand's Russian management are sticking to the idea that their clients only want the new collection, and covertly slip it among their stocks.

#### **4.11 The Four Muscovite players**

Nowadays in Russia, there are only 3 outlet villages and 1 outlet centre, all of them located in the Moscow region. Each of them has a different customer target and a different approach to them.



**BrandCity Outlet Center.** Smaller but precursor of the concept in Russia, BrandCity Outlet Center differentiates itself from other projects by its human scale, 26 000 m<sup>2</sup> of GLA in a converted traditional mall as from the beginning of 2012. The main feature is that BrandCity is a reconception and not a brand new project.

Fairly quiet since the reconception, the BrandCity management relies on the customer's loyalty and the word of mouth communication. The centre is located on the big ring of Moscow, the MKAD and the anchor brands are SportMaster, M.Video and Starrik Xottabik (DIY). The capacity is less than 60 stores and 80 % is leased. The rent rate is between 200 and 850 USD/m<sup>2</sup>/year according to the size and location of the space.



Source: 000 Way MKAD

**Belaya Datcha Outlet Village.** Opened in August 2012, Belaya Dacha is built in a European Outlet Village pure style and is a walk on the open air. The Village is located outside the south-east ring of Moscow. Hines International Real Estate Fund invested 250 million USD for the whole project that will extend on a second phase, to eventually reach 38,000 m<sup>2</sup> GLA and 200 stores.

The top brands in Belaya Datcha are the TSUM, the Jamilco and Bosco brands, Adidas, Nike and Tommy Hilfiger. The footfall for 2013 is 1.5 Million visitors, 55 % during weekends and the average store turnover is approximately 6,300 USD/m<sup>2</sup>.



Source: 000 Way MKAD

**Vnukovo Village Outlet.** On the road to Vnukovo airport, the village is already almost fully leased and is aiming at a higher level of visitors.

The 55 million USD invested jointly by a Russian private investor and Rossiyskiy Kredit Bank on a 46,970 m<sup>2</sup> area (GLA 26,252 m<sup>2</sup>) led to a more Russian architectural Village type of 150 stores in open air. Vnukovo Village opened last year in May and includes a children playground area sponsored by the Finish group Angry Birds. The

frequentation is for 53 % during the weekend. The currently best-selling brands in Vnukovo are Adidas, Carlo Pazolini, Escada, Furla, Geox, Guess, Levi's, Nike, Marc Cain, M.Kors, Pandora, Tommy Hilfiger, Villeroy&Boch, Red Code, Jamilco Premium brands, Trend Zone, Timberland and New Balance. A second stage of 10,200 m<sup>2</sup> is scheduled for 2014.



Source: 000 Way MKAD

***Fashion House.*** Financed by Liebrecht & Wood Investment Fund and developed by GVA Sawyer, the 131 millions USD project covers a surface of 38,826 m<sup>2</sup> (28,641 m<sup>2</sup> GLA) and counts 120 stores. Fashion House opened in June 2013 and is located on the way to Sheremetyevo International airport. No information was provided concerning frequentation, turnover or rent rate. For the time being the main tenants are Adidas, Nike, Lacoste, US Polo, Baldinini, Samsonite, Salomon, Henderson, Mascotte, Ekonika, Ralf Ringer and Carlo Pazolini.



Source: 000 Way MKAD

#### 4.12 A bright future

Although no market survey has been achieved yet on a big scale, we know that the audience target for outlet format is men and women between 25 and 55 whose revenues are middle to upper with an interest in Western brands. That definition already matches 19 % of the total Russian population. The average purchasing basket is 80 to 110 USD.

The logical consequence is a development of the concept in the regions, first on the top and then gradually in the coming years in the regions of lesser economic importance cities. The current plans known of opening in regions are for Fashion House in St. Petersburg and Yekaterinburg. Hines also acquired a land in St Petersburg, on the motorway leading to the Pulkovo airport. The joint project with the fund UFG As-



set Management concerns a surface of 30,000 m<sup>2</sup> and an investment of 100 million USD. These two big projects have already received permission for Outlet construction. Meanwhile, Hines is planning a second Outlet centre in the Moscow region, right next to the existing Vnukovo Outlet Village and together with a Big Box Retail Centre.

One roadblock that seems to be shared by all players is the difficulty to convince brands to open stores at the early stage of the projects. The other challenge is to change the Russian retailers and customers behaviour. In the years to come, the Western and global store management will prevail and goods will not remain in stores until they are sold.

Despite these difficult grounds, the destiny of Outlet centers is vowed to great future in Russia. The request is strong and constantly increasing. The arrival of Outlet centers will not make up for price differences between the West and Russia but will allow an easier access to the international brands for middle classes by proposing more affordable rates. In the rest of the world, outlet shopping is already ranked as the retail segment with the highest growth. Moreover, the idea is no longer, as formerly to build on an annual or bi-annual shopping expedition, but rather to create shopping and entertainment destinations. In Russia, where technology, services and modernity are a must, there is a wide field of possibilities.

Among retail centers that multiply and thrive in Russia, Outlet centers have to create very favorable conditions to tenants, for instance commercial rent rate below city centers or department stores rates. Finally on the price front, they will have to fight the huge discount politics made by Russian street retail stores to clear their overstock and not to fall into the trick of selling only second line product in the Outlet stores.



## 5. The Outlet Centre Market in Spain

by Eduardo Ceballos Fernández, Neinver, Madrid (E), [www.neinver.com](http://www.neinver.com)

The outlet concept developed later in Spain than in other European Union countries. Although outlets already existed in the United Kingdom in the 1980s, it was not until 1996 that Spain's first outlet centre opened in Las Rozas (Madrid). Two years later, a second centre was opened in the same Madrid. Since then the sector has grown continuously.

In its early days in Spain the concept was closely linked to price, with manufacturers selling their products and surpluses at a discount. This was most noticeable in the architecture of the outlet centres, which mirrored the typical features of a warehouse or factory and was aimed at a Spanish consumer whose main concern was to find lower prices than in traditional stores.



Eduardo Ceballos Fernández is Country Manager in Spain at Neinver.

Over the space of almost two decades, however, the concept has developed and matured and has found a secure place as an additional sales channel. So, while in 2000 this channel had only a 0.1 % market share, in 2011 this had risen to 14.1 %.<sup>1</sup>

Furthermore, the outlet sector has performed better than traditional sales channels over the last three years, a period in which consumption in Spain has fallen. In fact, according to the Retail Trade Index (ICM), sales in Spain's retail sector fell by 3.9 % in 2013, and by as much as 4.4 % in the case of large selling areas. Although this fall is the lowest in the last two years, the shopping centre sector fared better, with sales in 2013 only 0.3 % lower than in the previous year.<sup>2</sup>

In terms of footfall, the outlet concept has become increasingly attractive to Spanish consumers. While footfall in the shopping centre sector was 0.75 % lower in January 2014 than a year earlier,<sup>3</sup> the number of visits to outlet centres was up. There is a lack of official data of footfall in outlets. Considering our assets in this country, the number of visits was up by 10 % (12.8 million visits).

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<sup>1</sup> Source: Acotex, 2012 Report.

<sup>2</sup> AECC data. News published by Modaes on 26 January 2014.

<sup>3</sup> Source: Footfall index for January 2014.



## 5.1 From price to style

The consolidation of the outlet concept in Spain is not only reflected in its main indicators but also in consumer habits. In these two decades, the outlet channel has become a favourite of Spanish consumers, with each of them visiting on average 13 to 15 times each year. As their consumption habits have matured, the Spanish have also become more demanding when buying at outlet centres.

Spanish consumption trends indicate that not only must outlets meet consumers' demand for the sector's expected discounts, which range from 30 % to 70 %, depending on the product and the season, but they must also meet their expectations for quality in the shape of prestigious brands and a shopping experience that is completed with leisure and food services.

This upgrade in consumer taste is therefore carried over to the sector in the form of ever more complete offering of brands, quality, and style and other external features, such as the environment in which the sale takes place: architecture, décor, lighting, and other services that allow users to develop their social media habits with guaranteed continuous mobile connectivity.

## 5.2 Today's outlet sector in figures

Spain is a market where the economic recession has forced households to save money by spending less, but other factors, such as the 2012 increase in VAT from 18 % to 21 % on most products, goods, and services, also played a part in the fall in consumption. Nevertheless, the outlet concept has developed positively, with sale and footfall figures above the average for the shopping centre sector as a whole.

In the last three years, the Spanish retail trade has been hit by a sharp fall in consumption brought on by the country's economic situation. Despite this, the main consumption indexes show that this trend is easing, and sales are showing signs of gradual improvement. According to the National Statistics Institute (INE), in November 2013 year-on-year retail sales at current prices, not including service stations, were up 3.2 %. What is most significant is that this upward movement is general for different types of products and distribution channels and that household consumption in Spain is forecast to rise slightly by 0.2 % in 2014.

Shopping centres are estimated to account for 16.28 % of retail sector sales. There are 542 shopping centres and retail parks in the country, with a total area of more than 15.2 million square metres<sup>1</sup>, although the density of shopping centres per head of population varies according to region. Aragón, Murcia, Madrid, and Asturias, for example, have ratios that are more than double those of Catalonia.

In 2013, sales at Spanish shopping centres and retail parks amounted to an estimated 36.77 billion euros, down just 0.3 % from the previous year. This would imply that the average sales receipt amounted to 21.60 euros. Footfall in 2013 was 0.2 % higher

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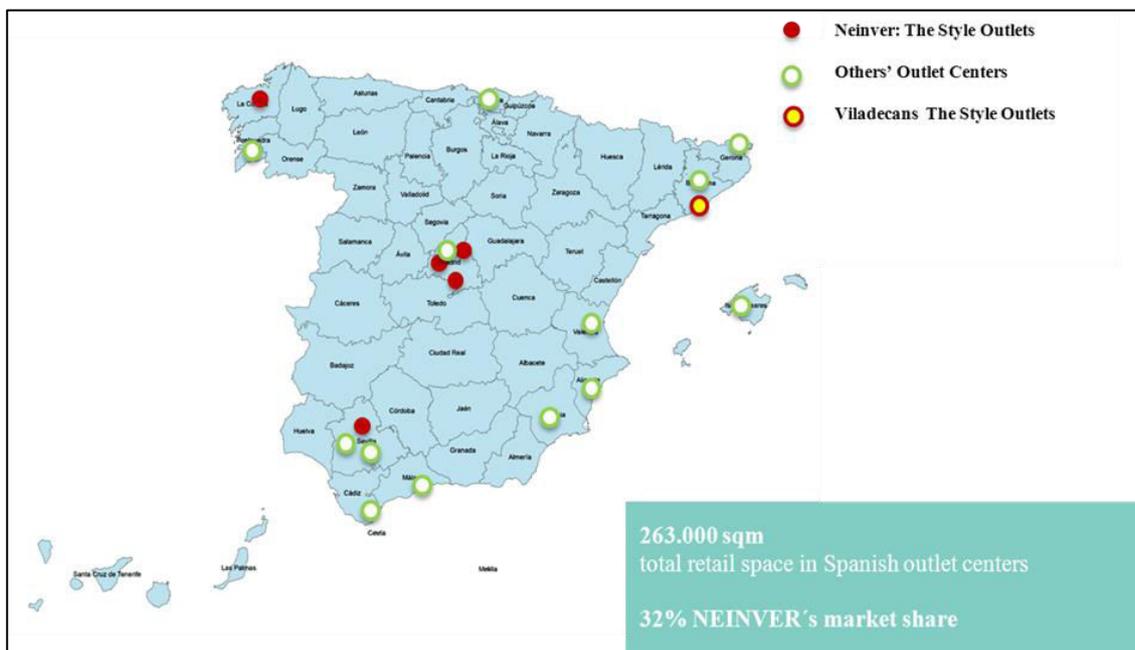
<sup>1</sup> Opinion of the Chairman of the AECC published in the Faro de Vigo on 26 January 2014

than in the previous year, with more than 1.7 billion visits. At 618 million euros, investment in the sector in 2013 was 147 % higher than in 2012.

Against this economic background, of Spain's 542 shopping centres and retail parks, 18 are outlet centres<sup>1</sup> covering a total area of 263,000 sqm of GLA. As in the rest of Europe, the outlet sector in Spain is very fragmented. The leading operators are Neinver, which manages five centres (32 % of the outlet market) and Value Retail PLC, which manages two, with the remainder managing only one centre each.

The key factor in this positive development of the Spanish outlet sector is the ratio of square metres of outlet space per 1,000 head of population. While the average in other European countries is between 7 and 10, the average in Spain as a whole is 4.4. But, in Catalonia it is only 0.1. In short, although the outlet concept as a sales channel is well established in Spain, it still has enormous potential because of the lower density of centres per 1,000 head of population in some parts of the country with a high population and tourism.

Map: Spanish Outlet Centres



Source: ecostra (November 2013) & AECC Spanish Association of Shopping Centers (December 2013)

Neinver leadership in the Spanish outlet market:

- 1996 – Opening of Spain's first outlet mall. (Las Rozas, Madrid).
- NEINVER – pioneer and market leader in Spain.
- Ranks 1st in terms of outlet space and the number of outlets malls:
  - 5 centers in biggest cities
  - 83,700 m<sup>2</sup> of retail space
  - 339 stores.

<sup>1</sup> ICSC: 12 outlet centres with a GLA of 213,664 m<sup>2</sup> and total area of 2,297,465 m<sup>2</sup>.



### 5.3 Key trends in the development of outlet projects

Leaving aside the economic environment, it is essential to bear in mind the key factors when developing new projects in Spain. First, when choosing the location, different factors have to be taken into account, e.g. size of the population, density and number of shopping centres per 1,000 head of population, the road and transport network in the area of influence. But, above all, we must be aware of the legal and administrative regulations at national, autonomous region, and local level, because the process of securing and commercial licences differs from region to region and city to city.

Another aspect of the regulations that must be taken into account concerns trading hours, which are not the same in all the autonomous regions. Although most of the autonomous regions allow centres to open on a maximum of ten public holidays per year, Catalonia, for example, allows them to open on only eight. Madrid, on the other hand, is more flexible, and large shopping areas can open their doors to the public on all public holidays, except for four specific dates.

Images: Getafe The Style Outlets (left), scheme of planned Vilacedans The Style Outlets in Barcelona



Source: Neinver

**Sustainability in the design and construction** of a commercial project is especially important, not only because of the objective data showing how centre management is improved in terms of cost savings and energy efficiency, but also because investors, brand names, and, of course, consumers are increasingly aware of the importance and benefits of sustainable architecture that respects the environment.

For investors and operators, a **project that is eco-efficient** from the point of view of design and management has an advantage over other buildings that lack the green seal. Not only does designing environmentally sustainable buildings ensure compliance with the most stringent regulations, it estimates 7.5 % to a building's value. Furthermore, it increases occupancy rates by 3.5 % and rents by 3 %, while cutting operating costs by 8 %.<sup>1</sup> Naturally, this is converted into greater satisfaction for users and consumers, and, because their shopping experience takes place in a better managed environment that is more agreeable to the senses, they end up spending more time at the centre. Real estate is certified for sustainability at different stages. In Spain, the

<sup>1</sup> Source: NEINVER: Eco-Efficient Buildings. How to measure the investment in sustainability

most common certification is ISO 14001, but in the shopping centre sector the BREEAM certification is becoming increasingly popular, although the LEED certification criteria are also followed. In recent years the sector has increasingly moved towards BREEAM, because it is based on European regulations and has external advisors who ensure that the certification process is unbiased. LEED, on the other hand, follows American regulations. One of the reasons why this certification rather than others is being chosen in Spain is because the International Council of Shopping Centres (ICSC) adopted it as a common methodology for the environmental certification of European shopping centres in 2008, and it was adapted for Spain in 2011.

But, when developing a project, **it is essential to bear in mind consumer demands and expectations**. Spanish consumers are no longer just looking for the lowest prices. They also want centres that offer them quality and a significant presence of nationally and internationally recognized brands. Nor must we forget that Spanish outlet centre users are looking for other value-added services, focused on leisure and eating. This means that the shopping experience must be designed for the leisure of both individuals and families.

#### **5.4 The sector's future and challenges**

After analyzing the key factors of the outlet sector in Spain and the main characteristics of both the country and the retail sector (with special attention paid to shopping centres and particularly outlet centres), we can conclude that **the outlet sector is in good health and that its medium- and long-term prospects are positive**.

The sector seems set to grow in the coming years, in view of the estimates made by the National Statistics Institute, which predicts GDP growth of 0.7 % and a 1 % rise in the Consumer Price Index combined with a 1 % fall in the Spanish unemployment rate.

Further proof of the health of the Spanish shopping centre and retail park sector is the fact that investment has held up in spite of the macroeconomic environment. In fact, at 618 million euros, investment in shopping centre and retail park transactions in 2013 was up 147 % from the previous year's figure of 250 million euros. Both Spanish and international investors are focusing on Spain in the light of the macroeconomic improvement forecast for the country. The market is by stabilizing.

And it is not only investors that are interested in the Spanish market. The number of leading brands interested in Spain as a place to expand has doubled. Whereas in 2012 only 6.5 % included Spain in their plans to internationalize their outlet sales, in 2013 this increased to 12 %.<sup>1</sup>

In Spain, the outlet channel is one of the first shopping options for consumers. The degree of loyalty is around 90 % and, although consumers' habits have become more demanding, operators too have understood how to respond to their demands by mov-

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<sup>1</sup> Press report: results of the Ecostra-Magdus Survey 2013.



ing in the same direction and improving the mix of products, as well as offering added-value services focused on leisure, culture, and the concept of quality free-time.

**There is just one outlet project under development in Spain.** NEINVER currently has plans for an outlet project in Catalonia, the area with low density on inh/sqm of FOC but with a potential catchment area and high attraction of tourism. *Viladecans The Style Outlets*, near to the city centre of Barcelona, is a two-stage development which will have 26,500 m<sup>2</sup> of selling area, 135 shops and parking space for 1,400 cars. Just a 10-minute drive away from the centre of Barcelona, the El Prat airport, and the port of Barcelona, the project's area of influence up to 90' minutes is home to 6.4 million people.

Images: Schemes of planned Viladecans The Style Outlets in Barcelona



Source: Neinver

Barcelona, a symbol of international city with spectacular interest as a tourism destination is also a thriving commercial hub attracting high levels of foreign investment. Barcelona is one of the world's favourite destinations, welcoming 7.5 millions of tourists and business visitors each year. The population, low density of outlet centres and the high attraction of tourism makes the location a good project to develop in.

Finally, and in spite of the favourable forecasts, outlet sector operators and managers **have to face a crucial challenge in Spain:** the continuing growth of e-commerce, with sales of 10.917 billion euros in 2011 (19.8 % more than in the previous year), and the number of online buyers up to 13.2 million, which would seem to indicate that 50.7 % of Internet users bought at least once in 2011. Because of this, it is essential that present and future outlet centres offer multichannel online and offline platforms that meet the consumers' need to be connected at all times.

According to 'La Sociedad en Red' (The Network Society), an annual report from the Ministry of Industry, Energy, and Tourism, smart phones are now used by 41.5 % of the Spanish population. This has tended to make mobile Internet use more generalized and it has now become a key part of social life, which is enjoyed daily or weekly by 28.6 % of mobile users. In this respect, it is vitally important to develop digital marketing solutions and mobile applications that will combine the traditional shopping experience with the Spanish consumer's growing social media profile.

In **conclusion**, it only remains to be said that the outlet sector in Spain is in good health, the forecasts are even better and there are some key locations for new pro-

jects, in spite of the fact that it will have to meet challenges such as mobility if it is to respond to the needs of an ever more demanding consumer.

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All the brands have their own interest but just one joins them all: selling.  
That's why 900 of the world's best brands put their trust in NEINVER. Because we are the second largest outlet operator in Europe, managing more than 311,000 sq.m. GLA and more than 1,500 stores. Because we manage 15 outlet centers operating under the brands The Style Outlets and FACTORY in Spain, Italy, Poland, Portugal, Germany and France.  
We recognize that the success of a brand is also ours. This is what has made us leaders.  
.....  
[neinver.com](http://neinver.com)



# 6. Challenges in Management of Outlet Centres

by Thomas Reichenauer, ROS Retail Outlet Shopping GmbH, Vienna (A), [www.ros-management.com](http://www.ros-management.com)

Designer Outlet Centres are still an exotic concept type in the shopping centre landscape. Officially they are a subordinate as a special theme shopping centre as well as a direct retail channel of brands. But both definitions underestimate the role of the operator. The most successful Designer Outlet Centres were developed and are operated by the same management company, because there is a lot of knowledge and experience necessary to overcome some barriers.



Thomas Reichenauer is Managing Director at ROS Retail Outlet Shopping GmbH in Vienna.

## 6.1 Metamorphose of a green field site to a unique outlet shopping experience

The most challenging phase in the lifecycle of Designer Outlets is the development phase. Designer Outlets have a real shopping centre concept compared to shopping centres in prime locations. Core Concept is the sale of last season collection, samples or stock overs for a minimum discount of 30 %. Designer Outlets are committed to the categories of sport, fashion and designer brands. Double pricing and collection check obligations are not unusual. Most of the centres have limitations by the town, region or state regarding the category mix as well as linked with social or tourism commitments. The development phase can take over ten years, because the developer has to raise trust and commitment on various levels to get the building permission. Excellent B2B marketing and lobbying are crucial during this period.

At the same time the developer and operator have to check the response from the brand partners and have to understand their expansion plans as well as their existing distribution strategy in whole sale, selective distribution and retail. Compare to shopping centres in prime location you have to convince brand partners to believe in the green-field location. In this phase the operator has to act as town marketeer, urban developer, tourism expert as well as brand ambassador. Especially Germany has the highest barriers, but on the other hand the highest potential for Designer Outlets.

## 6.2 Challenge to overcome the most popular prejudice, that Designer Outlets weak the local and regional full price retail landscape

Ok, there is only one wallet, but Designer Outlets generate extra sales, which would not happen in full price retail. People visit Designer Outlets as a trip for bargain hunting, to get great brands for great prices. The chance, that they can satisfy their cur-

rent need is low, because outlets live from impulse purchases. The first monitoring report of the Designer Outlet Soltau, which has one of the highest German requirements based on a "städtebauliche & raumordnerische Verträge" (urban development & spatial planning contracts), shows that a Designer Outlet have positive impulses for the regional economy. Over 400 jobs were created, nearly the half of the visitors come from a distance of more than 60 minutes' drive time and more than 22 % visit the region only for the designer outlet shopping experience.

### **6.3 Integrated and performance driven Centre Management**

Due to the American roots of the outlet concept the operator is evidently performance driven. A strong local team is essential. We seek every opportunity to make the location successful. Only the close and professional cooperation between experts in Leasing, Retail and Marketing can bring the location to the high performance level that is expected by brand partners and investors.

Especially marketing accompanies the entire lifecycle as a leading function. In the development phase with catchment analysis, location pitch, research regarding customer's brand expectations, leasing support, PR and tourism cooperation. In the opening phase to raise brand awareness for the entire Designer Outlet Center and it's concept and drive traffic with the widespread on- and offline marketing mix. In the operation with strong retail support, seasonal and category promotions, loyalty scheme till complete upgrade of centres. Overall the marketing budget is higher compared to classic shopping centres in prime locations, because you have to raise brand awareness for the complete centre due to the fact that the tenants don't promote their outlet shops themselves. The marketing spend per visitor is around € 1.50 per year. But it's worth: during fashion-full-price-density is around € 3,000 per m<sup>2</sup> in average; the designer outlet performs around € 5,000 per m<sup>2</sup> and higher.

### **6.4 Challenge growing ecommerce: How do Designer Outlets react?**

There is a big overall change in retail channels due to growing ecommerce by brands, private sales and diverse mix of online platforms. But some categories are more affected in comparison to other ones. In addition some mature retail channels like department stores and special shops are suffering all over Europe.

Designer Outlets are still a young attractive shopping centre concept. Even if the fashion category is growing in ecommerce, there are a lot of customer barriers regarding colours, fitting, sizes, changes and payment. It's interesting that the most successful sub-categories in ecommerce are shoes, sportswear and kids wear, which are more standardised. On the other hand the growing multi-channel engagement by the fashion brands stimulate the retail to support or create new brands. Current challenge of leasing is to observe these brands and to create more flexible formats within the designer outlet concept. Strong focus is also on the overall shopping atmosphere and investment in planting, catering, relax and entertainment zones due to the fact that over 70 % of the new customer are recommended by word-of-mouth.



But great brands at great prices wrapped in an overall unique shopping experience will never go out of fashion and has already proven their performance in the financial crisis. Designer Outlets are still an attractive day-trip-destination and are more exciting than the click to the online basket.

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Thomas Reichenauer  
thomas.reichenauer@ros-management.com  
+43 (0) 1 236 72 89 5101  
[www.ros-management.com](http://www.ros-management.com)



# 7. The Art of Creating a Successful Brand Mix in Different European Countries

by Adrian Nelson, McArthurGlen Group, London (UK),  
[www.mcarthurglengroup.com](http://www.mcarthurglengroup.com)

A successful brand mix is not just about having the right brand names above the doors; it is also about these brands having a desire to maximise their sales at your centre.



Adrian Nelson is Leasing and Client Relationship Director at McArthurGlen in London.

## 7.1 The Model and the Catchment

Any brand mix starts by fully understanding your catchment area, both the population living within a 90-minute drive of the centre, as well as tourists visiting the region, whether from outside the area, from other European countries, or international shoppers from further afield.

At McArthurGlen, our model is to create luxury and premium designer outlets. To do this, our centres need to be located in areas with wealthy fashion forward consumers, as well as a sizeable total customer base, and near cities or in regions that are popular tourist destinations, especially for the international shopping tourist. No two locations are exactly the same and so the brand mix will change according to the specific catchment – the luxury shopper in Rome, for example, does not aspire to the same brands as the luxury shopper in Dusseldorf.

The international luxury shopper is playing an increasingly important part in our catchments – we have seen tax-free sales double over the past two years. This is reflected in the locations of our latest wave of new McArthurGlen Designer Outlets, which include new centres in: Vancouver (75 weekly flights to China and a wealthy local population with a pent-up retail demand); in Provence, where we will be opening the first designer outlet in the South of France (France's most visited tourist region after Paris); and the historic city of Ghent, in a site easily reached from the city centre, and with excellent motorway connections. It is also reflected in the centres we are expanding, including Ashford Designer Outlet, for example, which we are planning to double in size, and which is just 37 minutes from London by high-speed train.

## 7.2 The right Target Brands

Once you are clear about your model and your catchment area you need to carefully select your target brands, based on your knowledge of the local retail trends and the more International tourist markets. The developer or owner must have a 360-degree



vision of the brand: the market where it operates, its distribution channels - full price, franchise, licensee, department store, internet, wholesale or outlet. This in turn will help give the landlord an understanding of brand awareness, access to stock, as well as any other sensitivities in the marketplace which might provide a barrier to entry – all factors that determine how the brand will perform. If you understand your brands, and the markets in which they operate, this will also help to build relationships based on trust.

### **7.3 The Necessity of Quality Stock and to work with the Brands**

Without plenty of good quality stock even the best locations with the best brands can fail. At McArthurGlen we have relationships with nearly 2,000 different retail brand partners, so we are always researching different markets with our partners to find the best hot spots for development that do not have distribution issues. Brands that do not have full control over their supply chain rarely perform as well as vertically integrated retailers.

In terms of the in-store experience, you need the brands to be receptive to work with the developer as a partner in order to drive performance. At the core of this are relationships, and relationships that are long lasting. The brands must have the will to get the right stock, the right staff and to train their staff so as to offer a premium customer service. They also need to have the right store fit-out, one that reflects their brand DNA and appeals to you consumer. It is about giving the customer the experience they expect and one that that will go on to help drive footfall and sales.

### **7.4 The ideal Brand Mix**

Returning to the McArthurGlen model, for us, having the ideal brand mix is not about offering just luxury and premium brands. To maximise sales, it is important to offer a breadth of brands, including designer, lifestyle and homeware brands as well. The luxury brands may be the shining stars to attract the shopper, but from our experience the shopper usually wants to leave the centre with a wide range of products from top designer clothing, to running shoes and a new set of cutlery. What the consumer wants is to find a strong mix of brands that they connect with and find wonderful product at a discount.

We create luxury piazzas with an even more premium shopping experience for our luxury brand tenants, with the designer and lifestyle brands clustered in other areas of our centres. Most leading department stores operate in the same way, such as Selfridges in London or Printemps in Paris. They create collections of different brands that appeal to the same consumer so that they will feel comfortable cross shopping and do not have to search the entire store for their favourite products.

### **7.5 Understanding and getting in Touch with the Customer**

Not only do you have to fully understand the brands that you want to have, or have at your centre, it is also fundamental to understand your customer. Consumer insight is the key. Regular research into your customer needs to be carried out. You have to



understand what motivates your customer, what brands they like and aspire to, as well as how they shop and where – whether the customer in the catchment market or the customer from the other side of the world, from China or Korea.

At McArthurGlen, we have a global sales & marketing network of representatives, who work alongside the McArthurGlen head office, regional and centre tourism teams. They ensure that a trip to a McArthurGlen Designer Outlet is on the itinerary of the fashion forward, shopping-hungry tourist before they leave home: and it's about getting a better understanding of how we can exceed their expectations – in terms of the brand mix and the overall shopping experience. We operate in these markets by working in partnership with the travel trade, airlines, tour operators, hotels, key local publications, and other such tourism organisations – we have more than a hundred of these partnerships – as well as carrying out our own consumer research in these markets.

Our tax-free shoppers spent 35 per cent more in 2013 than in 2012, reflecting a doubling of sales over the past two years – these are customers to take seriously. We are expecting this customer base to continue on its path of growth, as a new wave of shopping tourist arrives in Europe, whether from the tier 2 cities of China, where incomes have been rising and interest in designer labels is strong. Very often, the type and provenance of international shoppers will be determined by the flight paths in and out of Europe – a new flight path brings new shoppers, with new brand aspirations and looking to buy into the international brands – luxury or niche – and hungry for the savings to be made.

## **7.6 Keeping the Brand Mix fresh and relevant**

In the same way that the fashion industry is constantly riding new trends, with new names, the brand mix at a designer outlet needs to keep fresh and relevant to the shopper, whether a catchment shopper or an international shopper. This requires a constant quest to bring in new brands, to create new interest among shoppers and new excitement.

## **7.7 Professional Marketing**

Another important cornerstone in driving sales, and hence creating 'successful' brand mixes, is the role of marketing. In spring 2014, for example, we launched a global accessories campaign Colour Me Happy to support the arrival of the Spring/Summer collections at our centres. The campaign finds artistic inspiration in the kaleidoscope, and has as its aim to boost sales at a time of year when shoppers are looking to add a new colourful, seasonal twist.

The campaign is targeted equally at the male and female shopper (men account for an average of 60 per cent of McArthurGlen's sales). It will be supported by print, digital and outdoor advertising across Europe, as well as a special promotional video and accessories e-Look Book, both hosted on the centre consumer websites. All important for increasing footfall, and supporting the right brand mix. At centre level, such a



campaign is backed up by special activities, such as styling sessions, and with some brands making special, limited-edition lines available for the promotion.

Other recent successful events that our centres have held include Vogue Fashion's Night Out at our Italian centres in 2013 and this year, in 2014, we host our third Vintage Fashion Festival. You may be asking what these have to do with a successful brand mix. Driving footfall and sales is what puts the success into the brand mix.

Among many other activities, marketing also drives sales through digital activity, engaging consumers before they come to the centre, while they are at the centre, and keeping up the dialogue once they have returned home, to inspire their next shopping trip. This continuous engagement with the consumer is what consumers expect in today's increasingly digital world.

### **7.8 Accessibility**

To help drive footfall, the developer must also be aware of how easy it is to access the centre, whether customers are travelling by car, by public transport, or by a shuttle service. McArthurGlen's centre in Ghent, with a planned opening in 2016, is ideally located for this. It is part of a mixed-use project in The Loop district of this historic Belgian city. The site is off the city's ring road, and at the intersection of two of Belgium's most important motorways - the E17 linking Antwerp to Lille/Paris, and the E40, connecting Brussels with Bruges, and the popular weekend and summer coastal destinations, including Knokke-le-Zoute and the ferry port town of Oostende. It also has great access by public transport, with a designated tram stop on the doorstep and good access by bicycle too. All these are important factors to make the brand mix successful.

### **7.9 Conclusion**

As can be seen, to create a successful brand mix, in whatever country you are operating, is not as simple as putting brand names on the leasing plan. In short, it is a kaleidoscope of different details that the developer or owner needs to get right, all at the same time, and working in partnership with the brand tenants.

## 8. Outlet Center and Good Architecture: a Contradiction

by Prof. Christoph Achammer, ATP Architects & Engineers, Innsbruck (A), [www.atp.ag](http://www.atp.ag)

If we take the quote from Adolf Loos seriously – that artists make two types of structures, tombs and monuments, and that architects are needed for everything else – then this question has to be answered from the outset with “no”. If one is determined to address the core process of a building project, in this case for a Factory Outlet, then drawing up the project brief is most definitely a challenge. As in many other aspects of retail design, the apparently simple challenge in the design of the ‘point of sale’ or, more accurately, the ‘location of sale’, is the creation of an atmosphere that motivates the visitor to succumb to the “temptation” of the brand and the goods. There are many different ways of doing this – even when designing a Factory Outlet Center.



Prof. Christoph M. Achammer is CEO at ATP Architects and Engineers with headquarter in Innsbruck (A).

### 8.1 Origin and Development

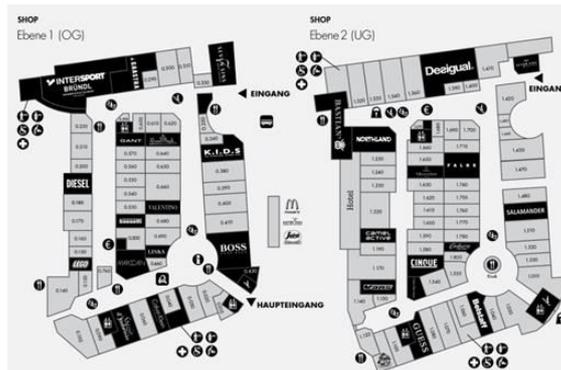
The Factory Outlet Center is, in itself, a peculiar animal. Emerging out of the idea of combining a number of factory outlets in a development which paid little heed to its location, the concept began its triumphant conquest of the USA in the 1970's. By the mid-1990's almost 350 Factory Outlets had been built across the States, often in conjunction with tourist destinations. Since the 1990's, Europe has been slowly but steadily catching up, although the synergy effect which has been exploited in the USA - especially in successful tourist regions – is still in its infancy over here. And while subsidies worth millions of euros are being poured into the preservation of rural areas, it is precisely the decentralized location model of the Factory Outlet Center which is leading to bitter battles lasting many years involving retailers' and environmental organizations.

### 8.2 Regional Planning

In the meantime, this somewhat simplistic view has led to classic shopping center concepts in built-up areas around urban cores being typologically treated as Factory Outlets. An extreme example is surely the transformation of an existing, only moderately successful shopping center on the outskirts of Salzburg into a Factory Outlet Center. Embedded in a classic retail park destination, a Factory Outlet is being created based on a two-story racetrack concept, hidden behind a semi-imperial facade.



## McArthurGlen Salzburg (Austria)



Sources: public domain, GoogleMaps, McArthurGlen

### 8.3 Theming

A tried-and-tested formula for success during the last decade has undoubtedly been the creation of “villages” which are more or less formally themed in line with a region and whose individual building types appear to be especially suitable for the presentation of individual brands. Naturally, this “feel-good world” has nothing to do with the original notion of the factory shop and yet, despite widespread cultural criticism, the good examples of this typology offer, on the one hand, a high quality visitor experience and, on the other hand, a valuable retrospective charm which is an ideal setting for the presentation of individual brands. This typology demands that special attention is paid to the treatment of each external space. As a rule, the village is surrounded by extensive areas of car parking, the design of which must also be of high quality. Particular attention must also be given to the route from each parking space to each village entrance. The special challenge of such projects is the design of the “rear façade of the village”, which also acts as the point of delivery to the individual buildings. Design solutions for this rear façade range from the unclad back walls of boxes to expensively designed boundary walls around delivery yards. Most recently, there have been more attempts to incorporate at least part of this parking into the village itself. This has succeeded most radically in the French example, *l’atoll*, in which the car is given the character of a horse and is thus able to populate the huge internal courtyard of the “UFO”.



### L'Atoll, Angers (France)



Sources: Antonio Virga Architecte + AAVP Architecture, 360vista.fr, Compagnie de Phalsbourg

## 8.4 Design Tools

The conceptual layout of Factory Outlet Centers is subject to most of the basic rules of the classic shopping center industry. Starting with excellent traffic connections and well laid out car parks, attractive customer guidance is the primary key to success. Starting from parking spaces and public transport stopping-points, paths and spaces must be created which are as attractive as those in any established town. Classic design tools for creating urban quarters - such as unambiguous orientation via axes, streets and squares and the marking of special intersections with "landmarks" which establish identity etc. - belong to the standard repertoire of FOC architecture. Where these principles have been observed, there is a chance that customer movement will be dynamic. Just as in shopping centers, interruptions in shop windows, cul-de-sacs and monotonous spatial configurations are lethal design faults that are difficult to correct. The issue of diverse forms of shop architecture – which is perpetually discussed in the context of the shopping center - is also relevant to the FOC. There are good and bad arguments for and examples of both extreme positions. Dependent upon the basic idea, completely individual architectural elements which bear no formal relationship to each another can be legitimate, even sometimes necessary, if the thematic framework is strong enough; the centers at Wertheim and Ingolstadt are, in my opinion, examples that meet this requirement.

### Ingolstadt Village (Germany)



Source: public domain, Value Retail Management

On the other hand, I believe that a concept such as the Factory Outlet at Soltau requires more homogenous facades, because it is based on the juxtaposition of real historic local architecture (used as the highlight of the village square) and modern retail architecture.



## Wertheim Village (Germany)

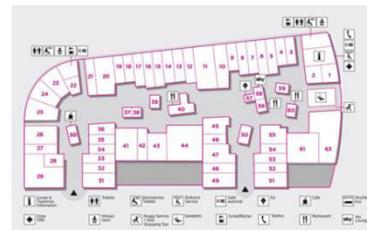


Sources: public domain, Value Retail Management

### 8.5 Future Developments

In my estimation, the proportion of the area of the new generation of Factory Outlet Centers which is given over to restaurants and entertainment is set to rise continuously, especially when locations are developed that serve as synergetic options at tourist destinations. The extremely long length-of-stay and large catchment area of FOCs compared with other concentrated retail forms actually argues for the combination with entertainment or perhaps even wellness facilities. If one examines the huge tourist movements here in Europe – the main ridge of the Alps alone is crossed every year by more than 50 million cars carrying tourists – it is amazing that this does not give rise to more additional attractions. And even if one subscribes to the belief that travelers do not shop, the function of individual destinations as a magnet – my homeland of Tyrol enjoys more than 35 million overnight stays each year – means that this double attractiveness must be more resolutely exploited. The resulting architectural challenges and expectations could define a new generation of FOCs.

## Designer Outlet Soltau (Germany)



Source: ATP, [www.designeroutletsoltau.com](http://www.designeroutletsoltau.com)

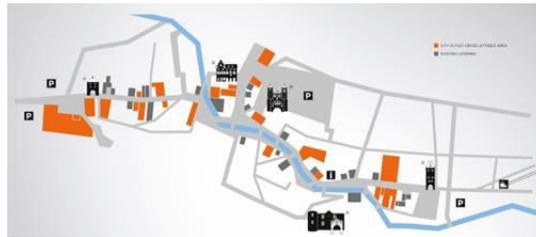
A first approach is represented, for example, by the FOC Soltau, where an attempt was made to combine historic architecture with a retail-friendly façade design. In the future, one could envisage the incorporation of historic structures that would also introduce an edutainment character to FOCs. Museum villages have been a success story across Europe. Hundreds of thousands of visitors stream annually through “artificial



agglomerations”, in which traditional building types which are threatened with dereliction have been saved by being reconstructed in museum conditions. Why not combine this type of attractions in the future with FOCs?

The current initial attempts to use Factory Outlet concepts as a means of reinvigorating small towns which are threatened with extinction are examples of the same trend. Such attempts naturally involve increased costs and levels of work, particularly in the conception and design process, but I am virtually convinced that the consumer of the future will have higher aesthetic and cultural expectations and be rewarded with a better quality environment.

#### City Outlet Bad Münstereifel (Germany)



Source: City Outlet Bad Münstereifel

### 8.6 Design

In view of the restricted scope for design of Factory Outlet Centers - which is largely reduced to the shop façades of the individual brands - we are already witnessing a shift away from the purely escapist concepts of the 1990s, such as Excalibur City on the border between Austria and the Czech Republic, and towards attempts to create, at least in thematic terms, integrated environments. The FOC in Ingolstadt represents an attempt to formally integrate the various industrial languages of the region. These efforts, which include external spaces in which industrial railway lines reappear as artifacts, contribute to the creation of concepts which are not only atmospherically formal but also perceived as such by consumers.

The best examples of this current trend are undoubtedly to be found in the southern regions of Europe. Here, the climate gives us more room to maneuver, particularly in the design of external spaces.

#### Excalibur City, Znojmo (Czech Republic)



Source: public domain



## 8.7 Conclusion and Outlook

Only time will tell if we have been successful in the formal integration into new or existing developments of themes that bring us closer back to the notion of the factory shop. My own view is that many developers are still too intimidated by new ideas. If more radical architectural languages are both coherent and meet basic functional requirements then there is no reason why they cannot bring success. I personally expect the future to bring solutions as spectacular as those which we expect from pavilions at World Exhibitions. And at the same time, we architects must never forget that the FOC is a successful retail form. Considering the future interaction between virtual and real worlds - between internet shopping and classic retail - it is our duty to create emotional added-value in real structures: Added value that uses architecture to support the quality of experience, interaction and communication for the visitor. We must continually ask ourselves why millions of people travel every year to particular towns to look at a single square on the edge of which they then sit together to drink a ridiculously overpriced cup of coffee. This image should encourage every architect to create spaces that possess similar qualities, even if the reality is that they are located in a green field and surrounded by nothing more than a car park.



G3 Gerasdorf | Foto: ATP - Kuball

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# 9. How is Capital Investment Market Developing in Europe

by David Williams, Gallant Outlet Services Ltd, Bedford (UK),  
[www.gallantoutlets.com](http://www.gallantoutlets.com)

There is no doubt, in my opinion that more investors, both institutional and private are now looking closer at the outlet sector. This added interest is driven by a number of factors:

1. Extended track record. Outlets still around today have survived one of the worst economic downturns most people have ever experienced. During this period many outlets maintained their income and occupancy with some delivering rental and turnover growth. The number of tenant failures, in my experience were less than expected and the demand from more appealing and better performing brands made up for it. This performance impressed investors. Some commentators describe outlets as counter cyclical which in my view is not correct. It ignores their track record of also delivering growth during more favourable economic periods. Outlets have the potential therefore to be more acyclical.
2. Search for investment return. Many investors have been priced out of the more conventional retail markets and this pressure to find return especially in an environment with less leverage has persuaded them to look at more niche sectors including outlets.



David Williams is founder of Gallant Outlet Services and was formerly Fund Manager of the European Outlet Mall Fund (EOMF) at Henderson Global Investors

I believe there is still a huge gap though between this 'new' interest from investors and available stock that can meet their needs and convert interest into demand. As owners appreciate and satisfy investor requirements the gap should narrow and the number of transactions will therefore increase. Many outlet transactions lack transparency making it difficult to adjust pricing for other aspects of a deal e.g. earn outs to the seller, rental guarantees to the buyer, yields adjusted for expected future rental growth, land with permission to develop additional phases included etc. If the number of transactions increase so should transparency.

In my view most investors currently entering the outlet sector are either looking for: (i) a high stable income yield or (ii) prospects of opportunistic type returns driven by rental growth, development and asset management opportunities. There are fewer investors currently willing to pay a lower yield for future rental growth because of the risk they perceive of relying on the outlet operator to deliver future performance.



There has however been an increase in the number of independent operators which if it continues and they can demonstrate a solid track record, should reduce this risk in the future. Employing an independent operator who manages more than one outlet gives greater leverage with brands and creates economies of scale. If investors can access independent operators with these qualities demand and the number of transactions should increase. This will help bring down yields and increase values.

Owners looking to sell or attract investment should therefore take note of investors' requirements. Higher income yields should make the use of bank leverage, by investors accretive to their net returns. Banks will look at outlets as investors do but are probably more risk averse. The prospect of significant yield compression to exit is an added bonus but not relied upon generally by investors. However some countries may offer investors arbitrage opportunities as future yields compress from an improving macro-economy.

Land owners wanting access to the sector will look to team up with an experienced outlet developer/operator.

Outlet owners, developers and operators need to understand the requirements of investors to attract buyers at exit or investment partners to fund expansion or asset management. In addition investors need to accept that outlets require continual investment to refresh the offer, attracting customers to return as well as contributing to marketing when appropriate.

## **9.1 Investors and their requirements**

Investors are currently attracted to outlets by the prospect of either high stable income yield, rental growth or development profit. An owner that can offer any of these prospects to investors should achieve an exit or attract investment sooner at a more acceptable price.

Investors currently interested in the sector are looking for:

### **1. Opportunity.**

These investors are looking for opportunistic type total returns from development and significant rental growth. I estimate current opportunistic total returns at property level, before the impact of gearing will probably be around a minimum of mid-teens per annum measured over 3 to 5 years. The majority of return they seek is likely to be capital. These investors are typically private equity in nature and are happy to take over the operation of the outlet either managing the incumbent staff or operating company or employing a new team. Their confidence in the operator may mean they will acquire outlets with high vacancy which will allow them to potentially re-position the scheme.

I expect the purchaser of Wolfsburg, Germany will be looking for opportunistic levels of returns. They will be working closely with the incumbent manager to develop the next phase and push the growth of the existing phase.



Exit will either be to cultivators (see 2 below) therefore some growth will have to be left or to investors seeking high stable income yield where most of the growth has been taken

## 2. Active management

I define investors that actively manage their assets as cultivators. They are looking for a mixture of income and capital return. All things being equal rental growth will deliver income and capital return. The prospective outlet will have the fundamentals to deliver growth. It will be well located and well managed by an incumbent operator with a demonstrable track record on whom the investor will rely heavily on. These investors may buy at a lower initial yield if they believe the operator can deliver strong future rental and net operating income growth. The prospect of developing additional phases to bolt onto existing phases should also be attractive to cultivators. I expect investors acquiring some of the Value Retail and McArthurGlen assets would be classed as cultivators.

Many well located outlets do exist but cultivators have stayed out of the outlet market so far because they can't get access to independent operators with a track record of delivering growth.

Rental growth will be expected to come from increases in turnover and base rent. These investors understand and embrace turnover leases which help create a partnership between the main stakeholders: investor/(owner), tenants/(brands) and the operator. In the main if turnover grows rent and value to the investor grows (assuming turnover rent exceeds the minimum base rent), profit to the tenant increases and fees to the operator increases. The main focus should be to increase sustainable income to maximise value. Income spikes over shorter periods may however have some benefit to increase awareness for example.

The customer is also a stakeholder. The outlet offer must give the customer what they want which if delivered should lead to increases in turnover and rent.

## 3. High stable income yield

These investors are looking in the main for high stable income yield and will probably focus on the risk of losing income rather than the opportunity to grow it. The prospective outlets will typically have little prospect of significant rental growth unless appropriate investment is made. These investors will rely on the operator and prefer less turnover rent given the low growth prospects. The operator will need to demonstrate an ability to maintain high levels of occupancy and manage and negotiate lease renewals successfully.

The recent buyer of Livingston was probably attracted by the attractive stable income yield.



All investors should be aware of the need to continually invest in their outlet. The level of investment will depend on a number of factors e.g. competition; future growth targets; position of asset on its maturity cycle, tenant demand for space etc. etc.

Investors in the main will not be attracted to forecast growth that is expected to only come from asset managing under-performing brands especially when the operator lacks brand leverage. In some cases investors will understand and appreciate that lack of investment in the past by previous owners has contributed to slow growth. Even outlets with little prospect of growth will require investment to maintain income as performance can quickly deteriorate without it. Investors should understand the benefit of brand leverage by having an operator with responsibility for more than one outlet. This can however introduce conflicts of interest which will need to be managed if the investor is not the owner of everything.

As the number of quality independent operators increase, preferably managing outlet portfolios with track records of delivering performance, investor demand and the number of transactions should increase. Yields as a result should fall for well located assets.

Investors will have different attitudes to bank leverage. Those seeking opportunistic type returns are likely to employ higher leverage.

## **9.2 Risks perceived by investors**

In general because of the higher perceived risk of investing in outlets they continue to be valued at a yield premium to similar quality shopping centres ignoring the impact of location on pricing etc. Generally, however the level of this perceived risk has fallen due to the good performance during the recent downturn when many outlets maintained income and occupancy levels whilst in some cases delivering rental growth. This has resulted in a narrowing of the yield gap for some assets. The yield gap will be wider for those outlets with little growth prospects or which are located in non-core countries. I tend not to compare outlet yields to those of retail warehouses. The large store sizes of the latter and threat from on-line sales for a number of tenants (e.g. FMCG) may make retail warehouses yields vulnerable.

Investors still perceive the following major risks which therefore contribute to the yield gap to shopping centres:

1. Reliance on an effective and motivated operator.  
Outlets rely on a specialist operator who can attract the right brands, continually reinvigorate the scheme and effectively manage the marketing budget. Operators need to be properly incentivised to align their performance to the interests of investors and tenants. However an operator can only be fully effective if the owner understands and is willing to continually invest in the outlet offer. Investors' perceived risk will be reduced if they can access quality independent operators with a track record of delivering performance and preferably manage more than one outlet.

## 2. Turnover rent

In the past turnover rent was seen as a big risk for investors and banks many of whom discounted or even ignored it. For outlets that have prospects for strong growth turnover rent is generally appreciated as an opportunity. Where investors are looking at an outlet for its attractive yield and income stability is key there is still a risk turnover rent will be discounted.

The increase in acceptance of turnover leases has been helped by more full price shopping centre leases including a turnover rent element with a requirement for tenants to contribute to the marketing of the scheme.

Turnover leases offering higher turnover rent but little or no base rent will reduce risks for brands and can help owners attract better brands.

From my experience turnover rent percentages are generally higher in the more mature markets e.g. U.K. It is therefore probable that turnover rent percentages will increase in the less mature markets and close the gap.

## 3. Threat of 'Parasite' outlet competition.

Outlets are normally located out of town where land prices tend to be lower. This can attract developers of competing outlets who look to feed off the footfall from the established outlet. The parasite will benefit from lower costs and can therefore afford to offer tenants lower rents and charges. The established outlet will need to demonstrate superior customer service, retail standards, food and beverage, brand offer and mix etc. to stay ahead of the parasite.

## 4. Perceived lack of buyers and value at exit.

Compared to other real estate asset classes there has been a dearth of outlet transactions in the past though there has been increased activity recently. If outlet owners can offer opportunistic returns, high stable income yield or strong income growth to investors demand and the number of transactions should increase. The owner will have a wider investor universe to offer their asset to and get more value if they have an independent operator in place with a good track record.

## 5. Lack of stock availability and poor management in the stores.

Outlets in Europe generally rely on excess or end of season/line stock from full price. If full price control their inventory better this could reduce the stock that can reach the outlets. This can be particularly problematic to non-company owned stores e.g. franchises or licensees. In company owned stores brands are usually committed to getting stock to their outlets as this is a very profitable business for them. Some brands supplement their stock from full price with made for outlet (MFO). This has received some bad publicity in the UK and I would like brands to be more open and transparent about the quality etc. of MFO. If the in-



dustry waits for consumers to publicise their opinion it could have a huge detrimental affect on sales of all outlet stock.

A good operator will assist in educating, training and monitoring tenant staff to deliver high retail and customer service standards.

6. Out of town location.

Most of the larger outlets are located out of the major towns at least circa 30 minutes from the main population hub they serve. This is predominantly to give a clear physical separation between brands in their full and outlet stores. The further the outlet is from its customers:

- 1) The bigger the risk that new competing developments will isolate the outlet and it therefore may become cut off from the population it serves. The outlet owner will at least need to invest in additional marketing to re-enforce its unique selling point.
- 2) The bigger the peaks and troughs in footfall between weekends and holidays and weekdays. This puts huge pressure on parking, stock management and infrastructure etc. during the peak periods.

7. High Street discounting

This has probably more of an impact in countries like the U.K. where retailers are allowed to offer stock at sale prices any time. Other countries only allow sales at specific dates in the calendar which tend to be reasonably rigid. Retailers who act alone outside the normal sale period expected by customers will need to invest heavily in marketing to generate the footfall. At a time when revenue is falling some retailers will probably not do this and will rely on passing trade. This will reduce the impact. Outlets that offer predominantly high street brands will probably suffer the most and will need to keep reinforcing their unique selling point e.g. Brands up to 70 % off in a single location. In the future the minimum discount offered by outlets may need to be increased from the normal 30 %.

Some outlets e.g. Ebbw Vale are the main shopping centre for the catchment and therefore the impact of high street discounting is less.

8. On-line

This is a threat to all bricks and mortar tenants who don't grasp the opportunity of on-line. Outlets need to continually adapt to give customers what they want and provide a service that is better than the competition. I believe most customers still like to touch and feel apparel before buying but are increasingly using on-line to compare prices etc. Outlets will in the future need to offer customers access to stock prices, availability and possibly delivery on-line.

On-line may also gain the outlet access to a new type of customer.



### 9.3 Conclusion

I believe there is currently an unprecedented level of investor interest in the outlet sector that is not being satisfied. To convert interest into demand and therefore increase the number transactions at least two things need to happen:

- i) Owners should offer opportunities that give investors the prospect of either high stable income yield; rental growth or development profit and;
- ii) Investors need access to independent quality operators who can demonstrate a track record of delivering performance, and preferably manage a portfolio of outlets.

If this can be achieved the number of transactions should increase, yields should fall and values will rise.

The real challenge for owners will be to offer opportunities that attract cultivators, those investors that will buy at a lower yield for future growth. This will be a sign of confidence in the operators and the outlet sector.

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**Contact David Williams:**  
E: [david@gallantoutlets.com](mailto:david@gallantoutlets.com)  
T: +44 (0) 1234 880788

[www.gallantoutlets.com](http://www.gallantoutlets.com)



# 10. Outlet Centres under German Planning and Building Law (Update from 2011)

by Prof. Dr. Christoph Moench and Dr. Jan Hennig, Gleiss Lutz Attorneys, Berlin (D), [www.gleisslutz.com](http://www.gleisslutz.com)

Compared with neighbouring European countries, there are still relatively few Designer Outlet Centres (DOC) in Germany. An important reason for this is the **high hurdles** that are imposed by German planning law and apply to such large-area retail facilities. Requirements vary from location to location, as the legal framework depends not only on federal law, but to a large extent also on state and local law. Anyone who wishes to plan and realise a DOC project successfully should familiarise himself with the details of these requirements. For successful projects, it is key to know how the restrictions should be approached in practice, how they can be influenced and under what circumstances one can deviate from them.



Prof. Dr. Christoph Moench is a partner at the Berlin office of Gleiss Lutz, certified administrative law attorney and honorary professor at the Goethe University, Frankfurt (Main), teaching construction and planning, environmental and European law. He has advised several domestic and international developers on DOC projects in Germany.

At first glance, the matter is quite simple: Anyone wishing to construct and operate a DOC requires a **building permit** (*Baugenehmigung*). The competent authority is obliged to



Dr. Jan Hennig is an associated partner of Gleiss Lutz at the Berlin office, certified administrative law attorney, and has particular experience in public planning and building law in the real estate sector. He advises a variety of domestic and international investors on the development of retail projects in

issue such a permit if the DOC is permissible under the applicable planning and building law. In general, the planned construction must comply with the federal planning laws (*Bauplanungsrecht*) and the Federal State building regulations (*Bauordnungsrecht*). While the planning laws ensure an orderly urban development and determine whether a specific plot of land can be used for constructing a DOC, the building regulations are intended to avert dangers, and they set out structural and technical conditions for construction.

This article focuses on the planning laws, consisting primarily of the Federal Building Code (*Baugesetzbuch – BauGB*), the Land Use Ordinance (*Baunutzungsverordnung – BauNVO*) and the relevant Federal State laws on spatial and regional planning.

The Federal Building Code provides that a planned construction is admissible if it complies with the **land-use plan** (*Bebauungsplan*) that has been established by the **municipality** (*Gemeinde*) in which the property is located. Although in individual cases, large-area retail facilities may also be permissible in unplanned areas, as a general rule the municipality must have drawn up a land-use plan for the DOC. Thus, the municipality – ideally in close cooperation with the investor – creates the legal framework that is suitable for the DOC. However, the municipality is not free to do as it wishes. Firstly, it must adjust its own planning to the relevant planning **provisions of the Federal State** and the region. Secondly, it must observe the legal provisions of the Federal Building Code, the Land Use Ordinance, as well as other legal requirements. In particular, the municipality must identify and consider all of the interests involved and **balance** them fairly against each other in its assessment (*Abwägung*).

This article begins by describing the restrictions to the municipal planning autonomy due to state-level and regional spatial planning (*Raumordnung*) (see 10.1). We will then describe the other rules the municipalities must comply with in creating the legal framework for a DOC and what instruments are typically available (see 10.2). After that, we will briefly explain how DOCs can be approved and what strategic decisions the investor can take in the approval procedure (see 10.3). Finally, we will look at the possibilities of legal action which are relevant to the opportunities and risks involved in DOC development (see 10.4).

## 10.1 Provisions of spatial planning (*Raumordnung*)

The urban land-use planning (*Bauleitplanung*) on the level of the municipality must comply with the two upper levels of the German planning hierarchy, i.e. state-level and regional planning provisions. On the first level, the responsible planning authority on the state level draws up a spatial plan for the entire Federal State. On the second level, the responsible authorities do the same thing for each individual region. These spatial plans can only regulate matters that have repercussions beyond the limits of the individual municipality. Given their large catchment areas, DOCs generally do affect **interests that extend across municipalities** and therefore justify spatial planning measures.

It comes as no surprise, then, that all state-level development plans and regional plans in Germany impose restrictions on where DOCs can be built. Provisions on the location of large-area retail facilities in general, or DOCs in particular, are especially strict when they are formulated as an “*objective of spatial planning*” (*Ziel der Raumordnung*). Objectives of spatial planning are **binding provisions** which the municipality cannot override at its own discretion when drawing up a land-use plan. They can be enforced by the competent spatial planning authority if a municipality does align its urban land-use planning with these objectives.<sup>1</sup> If the provisions determine a

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<sup>1</sup> A recent example is the prohibition of the City of Helmstedt’s land-use plan procedure for a DOC which was upheld by the administrative courts; cf. Higher Administrative Court of Lower Saxony, judgement of 10 January 2014 – 1 ME 158/13 – *FOC Helmstedt*.



mere “*principle of spatial planning*” (*Grundsatz der Raumordnung*), the municipality need only take them into account in its assessment, but can ultimately decide to subordinate these principles to other interests it considers to be more important.

#### 10.1.1 Land use planning instruments for the regulation of large-area retail facilities

In practice, the following four spatial planning instruments have emerged for the regulation of large-area retail facilities (i.e. facilities with a sales area of more than 800 sqm):

- **Spatial concentration requirement** (*Konzentrationsgebot*): large-area retail facilities are only permissible in particular cities of a certain size. In some cases, large-area retail facilities are completely excluded in smaller municipalities.

Example: “[...] Large-area retail facilities [...] may as a rule only be designated, constructed or expanded in regional, secondary or subcentres”.<sup>1</sup>

- **Congruency requirement** (*Kongruenzgebot*): this regulation stipulates that the catchment area of a retail project may not exceed a certain area surrounding and connected with the municipality (*Verflechtungsraum*). This provision is often interpreted to mean that a retail facility may only generate a maximum of 30 % of its turnover from areas outside of the area assigned to the municipality.

Example: “Sales areas and ranges of goods of large retail projects must correspond to the supply function of and area assigned to the respective central location”.<sup>2</sup>

With their large catchment area, DOCs typically do not comply with the congruency requirement.

- **Prohibition on impairment** (*Beeinträchtungsverbot*): retail facilities may not substantially impair the supply structures of neighbouring municipalities and/or of the respective municipality in which the outlet is to be located.

Example: “By locating and expanding large-area retail facilities neither the supply functions of the integrated areas of the municipality in terms of town planning nor those of the supply areas [...] of neighbouring central localities may be substantially impaired”.<sup>3</sup>

- **Integration requirement** (*Integrationsgebot*): large-area retail facilities are only permissible in “integrated areas”, i.e. inner-city areas. Some regulations differentiate between retail facilities that sell goods relevant to central areas and those

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<sup>1</sup> Baden-Württemberg state-level development plan 2002, sec. 3.3.7 sentence 1.

<sup>2</sup> Lower Saxony state-level land use programme 2008, sec. 2.3 no. 03 sentence 1.

<sup>3</sup> Rheinland-Pfalz state-level development programme IV 2008, sec. 3.2.3 no. 60 sentence 1.

that offer goods which are not relevant to urban centres but are also permissible outside of integrated areas.

Example: *"Large retail projects should primarily be designated, constructed or expanded in areas integrated into town planning. For goods and ranges of goods not relevant to urban centres, peripheral town-planning areas can also be considered".*<sup>1</sup>

As DOCs are regularly situated on "greenfield" (or undeveloped) sites, they are usually precluded by the integration requirement. The only exceptions to this are DOCs in inner-city or peripheral areas, which are relatively unusual (the Wolfsburg Outlet and the recent Bad Münstereifel Outlet project are interesting examples of such exceptions).

### 10.1.2 Special rules for Designer Outlet Centres

While some development plans simply call for the application of the general requirements for large-area retail facilities<sup>2</sup> or even grant privileges<sup>3</sup>, several state-level development plans and regional plans contain special provisions for DOCs. For example, the Berlin-Brandenburg 2009 state-level development plan provides that:

*"Centres for manufacturers' direct sales with a sales area of more than 5,000 m<sup>2</sup> are only permissible in the city area of Berlin and in the regional urban centres".*<sup>4</sup>

The North Hesse 2009 regional plan is even more restrictive:

*"New forms of distribution in retail, e.g. centres for manufacturers' direct sales are to be assessed in the same way as retailing operations. In the planning region of North Hesse, locating such large-area operations with ranges of goods relevant to urban centres is only permissible in the inner cities of the regional urban centres".*<sup>5</sup>

The example of North Rhine-Westphalia reveals the legal limits of these rules. There, section 24a of the state-level development programme stipulated that DOCs with more than 5,000 m<sup>2</sup> sales area were only permissible in cities with more than 100,000 inhabitants. The State Constitutional Court (*Landesverfassungsgericht*) has ruled that this regulation is arbitrary and unreasonably restricts municipal planning.<sup>6</sup> The provision was therefore deemed to be null and void.

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<sup>1</sup> Baden-Württemberg state-level development plan 2002, sec. 3.3.7.2 sentences 2 and 3.

<sup>2</sup> e.g. Lower Saxony spatial planning programme 2008, section 2.3 no. 03 sentence 9.

<sup>3</sup> e.g. in Lower Saxony for a touristic DOC in the Lüneburg Heath.

<sup>4</sup> Berlin-Brandenburg state-level development plan 2009, section 4.7 (4).

<sup>5</sup> North Hesse regional plan 2009, section 3.1.3 objective 5.

<sup>6</sup> Constitutional Court of North Rhine-Westphalia, judgement of 26 August 2009 – 18/08 – *FOC Ochtrup*.



### 10.1.3 Legal limits and recent court rulings

The extent to which such provisions in state-level and regional planning restrict the municipality in its urban land-use planning for a DOC – as strictly binding objectives of spatial planning – and the extent to which they pose an obstacle to planning a DOC must be evaluated in each individual case. Not everything that plans designate as an *objective* of spatial planning will actually turn out to be an objective. According to a ruling of the Federal Administrative Court (*Bundesverwaltungsgericht*), the strictly binding effect enters into force only if the legal requirements of the Spatial Planning Act are fulfilled.<sup>1</sup> The objectives of spatial planning must be sufficiently determined and conclusively assessed. There are several examples of spatial planning stipulations which, in contrast to their express designations, were ruled to be basic (non-binding) principles of spatial planning and not strictly binding objectives. The ruling of the Higher Administrative Court of Lower Saxony on the non-binding character of the congruency requirement provides a good example of this.<sup>2</sup>

#### **Constitutional limits**

The German constitution sets limits to the admissible scope of spatial planning restrictions. It guarantees the municipal's planning autonomy and prohibits provisions that restrict this competence without sufficient cause or unreasonably. The Federal Administrative Court has ruled that municipalities must ensure substantial freedom for their own urban land-use planning.<sup>3</sup> In 2009, the Constitutional Court of North Rhine-Westphalia found a concentration requirement for DOCs in state-level planning to be unconstitutional.<sup>4</sup> The Higher Administrative Court of Schleswig-Holstein expressed (justified) doubts as to the binding nature of an integration requirement.<sup>5</sup> Other courts have meanwhile held different regulatory instruments to be compatible with municipal planning competence, such as concentration requirements,<sup>6</sup> congruency requirements<sup>7</sup> and prohibitions on impairment.<sup>8</sup> Whether or not a regulatory instrument is compatible with the municipal planning competence depends on the details of the specific state-level or regional development plan.

#### **Protection of retail facilities by European law**

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<sup>1</sup> Federal Administrative Court, judgement of 18 September 2003 – 4 CN 20.02.

<sup>2</sup> Higher Administrative Court of Lower Saxony, judgement of 15 March 2012 – 1 KN 152/10 – *Neu Mitte Garbsen*. The State of Lower Saxony intends to "repair" its congruency requirement in the pending 2014 procedure to amend its 2008 state-level land-use programme.

<sup>3</sup> Federal Administrative Court, decision of 20 August 1992 – 4 NB 20.91.

<sup>4</sup> Constitutional Court of North Rhine-Westphalia, judgement of 26 August 2009 – 18/08 – *FOC Ochtrup*, cf. 10.1.2 above.

<sup>5</sup> Higher Administrative Court of Schleswig-Holstein, judgement of 22 April 2010 – 1 KN 19/09 – *FOC Neumünster*. However, the Higher Administrative Court of Baden-Württemberg only recently took a different point of view, judgement of 22 November 2013 – 3 S 3356/11 – *Waldkirch*.

<sup>6</sup> Federal Administrative Court, judgement of 17 September 2003 – 4 C 14.01 – *Mühlheim-Kärlich*; decision of 8 March 2006 – 4 B 75/05 – *FOC Soltau*.

<sup>7</sup> Federal Administrative Court, judgement of 16 December 2010 – 4 C 8.10 – *IKEA Rastatt*.

<sup>8</sup> Higher Administrative Court of Rhineland-Palatinate, judgements of 15 November 2010 – 1 C 10320/09 and 1 C 10403/10 – *FOC Montabaur*.

Spatial planning restrictions on large-area retail facilities must also comply with European Union law. In particular, they must be compatible with the European guarantee of freedom of establishment. This guarantees citizens of other EU Member States the right to establish themselves in Germany free of discrimination and protects them against unreasonable restrictions on that establishment. The regulatory instruments described above restrict – indirectly – the freedom of establishment. Thus, they must be justified by overriding reasons of public interest and may not exceed what is necessary to achieve the legitimate objective pursued in each case.

It is doubtful whether all state-level and regional planning variations of the regulatory instruments sufficiently meet these requirements. The debate has been fuelled by a ruling by the Court of Justice of the European Union that several Spanish rules regulating retail facilities were contrary to European law.<sup>1</sup> It is important to note, however, that the European Court of Justice did not consider restrictions on the location and size of large-area retail facilities (for reasons of environmental protection and spatial planning) to be unlawful in principle. Rather, the Court decided in this specific case that the Kingdom of Spain had not sufficiently demonstrated why particular regulations were necessary to reach its objectives. It further stressed that Member States may not use such provisions to pursue economic objectives (economic needs test). Even if the European Commission did launch an infringement procedure against Germany several years ago (which is still pending) based on the allegation that the German restrictions of large-area retail facilities violate the freedom of establishment, one must be careful when extrapolating the findings of the Court's judgement in the Spanish case to German spatial planning law. Several regulations prohibiting of impairment and concentration requirements, along with perhaps congruency requirements, may very well be unobjectionable in terms of European law. Other regulations may be inapplicable because they infringe on the European freedom of establishment. Municipalities engaged in planning thus are granted additional latitude in planning DOCs.

#### 10.1.4 Procedural particularities

##### **Spatial planning procedure (*Raumordnungsverfahren*)**

In order to clarify whether a municipality's plan for a DOC complies with all of the applicable objectives of spatial planning, a spatial planning procedure has to be carried out. The procedure is set out in the law of each Federal State. Both the municipalities engaged in planning and the DOC investors can usually apply for a spatial planning procedure with the competent spatial planning authority. In the spatial planning procedure, the planning is then examined with regard to all issues relevant to spatial planning, i.e. issues having implications beyond the municipality. Authorities and other public institutions are extensively involved. Apart from the compatibility with the retail-specific requirements detailed above, effects on traffic and environmental aspects are also examined. The procedure ends with a "spatial planning evaluation". Although

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<sup>1</sup> European Court of Justice, judgement of 24 March 2011, C-400/08 – *COM ./. Spain*.



this evaluation is not legally binding,<sup>1</sup> in practice, the municipality and the investor will most likely follow it to a great extent.

### **Procedure to deviate from spatial planning objectives (*Zielabweichungsverfahren*)**

Should binding spatial planning *objectives* stand in the way of a project, they can be overcome by way of exception in a “procedure for deviation from objectives”. In this procedure, which is set out in the law of each Federal State, the spatial planning authority *can* permit a deviation if this is justifiable in terms of spatial planning and does not affect the basic outline of the planning. Usually, these prerequisites are only met in non-typical situations. The result of the procedure is binding and constitutes an “administrative act” (*Verwaltungsakt*).<sup>2</sup> This means that a municipality cannot override a negative decision in its town-planning assessment. Rather, if the municipality disagrees with the decision, it will have to take legal action against the administrative act.

## **10.2 Urban land use planning (*Bauleitplanung*)**

DOCs usually require a land-use plan (*Bebauungsplan*). Although in individual cases large-area retail facilities may also be permissible in unplanned areas (unplanned inner-city areas according to section 34 Federal Building Code), as a rule, the municipality must draw up a land-use plan. The Federal Administrative Court has emphasised that shopping centres –including DOCs – are generally likely to impair neighbouring municipalities to such a substantial extent that they may not be permissible unless the neighbouring municipality is involved in the formal planning process.<sup>3</sup>

The variety of regulations which may be included into a land-use plan is limited according to the Federal Building Act. With regard to regulations on the type of building and land-use (*Art der baulichen Nutzung*), the Land Use Ordinance stipulates that DOCs are only permitted in what are termed “core areas” (*Kerngebiete* – particular, designated inner city areas) and “special areas” (*Sondergebiete*). Since the building permit is based on and dependent on the land-use plan, a DOC investor has a strong interest in closely following the process of drawing it up and actively shaping it, in order to prevent mistakes from being made.

### 10.2.1 Restrictions on sales area and areas of merchandise

In drawing up the land-use plan, the municipality must determine precisely and take into account all of the effects the DOC will have. In this respect, it is often necessary for the municipality to define the DOC in the provisions of the land-use plan. Common tools for accomplishing this are restrictions on the maximum sales area (*Verkaufsfläche*), as well as stipulations on the areas of merchandise and the goods

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<sup>1</sup> The spatial planning evaluation enjoys the status of an expert opinion from the competent spatial planning authority. It is thus highly authoritative in professional terms.

<sup>2</sup> Federal Administrative Court, judgement of 5 November 2009 – 4 C 3.09 – *FOC Montabaur*.

<sup>3</sup> Federal Administrative Court, judgement of 1 August 2002 – 4 C 5.01 – *FOC Zweibrücken*.

on offer. Over the past few years, the rulings of administrative courts have clarified the legal framework.

### **What is covered by the German “sales area”?**

The use and leasing possibilities a land-use plan may open up as well as the permissible size of a DOC depends to a large extent on the term “sales area”. This is an autonomous term in German planning law and is *not* to be confused with other parameters such as the gross leasable area (“GLA”). The GLA is much larger than the sales area, exceeding it on average by 30 to 35 %. This is why 10,000 m<sup>2</sup> of German “sales area” roughly corresponds to a GLA of 13,000 m<sup>2</sup>. According to the Federal Administrative Court, the **sales area** is the total area accessible to the customer which is used for the purpose of **displaying and selling** goods. This includes display and open spaces, corridors accessible to customers, cash desk areas, the cash office, the outer cash office, as well as any entryways.<sup>1</sup> The sales area does **not include storage rooms**, offices, social rooms and staffrooms, toilets or spaces for the preparation of goods which are neither accessible nor visible to customers. Parking spaces and spaces for **services, catering / gastronomy** and **childcare** are equally not considered to be part of the sales area. It is important to note that not only roofed spaces belong to the sales area, but also open spaces insofar as they are used for the display or sale of goods.

### **Restrictions on sales area and goods**

The municipality engaged in planning can restrict the maximum permissible sales area in the land-use plan. According to the Federal Administrative Court, such a restriction is admissible as long as it refers to the specific project involved (i.e. the individual DOC) and does not apply in general for several (theoretically) permissible retail projects within a given zone.<sup>2</sup> Land-use plans for DOCs typically contain upper limits on the total sales area, and frequently also limit the sales areas for individual areas of merchandise (clothing, shoes/leather goods, sports goods, home textiles, etc.). The court rulings have approved such limitations on sales areas in a large number of cases.<sup>3</sup> All restrictions must be clearly defined in the land-use plan. The delineation of the areas of merchandise must correspond with the definition provided in the market assessment underlying the land-use plan (see sec. 10.2.2).

Furthermore, land-use plans for DOCs regularly stipulate that branded goods may only be offered for sale in the DOC if they fall into at least one of the following categories:

- seconds (goods with minor defects),
- end-of-range models (products no longer produced or whose production is being phased out),

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<sup>1</sup> Federal Administrative Court, judgement of 24 November 2005 – 4 C 10.04.

<sup>2</sup> Federal Administrative Court, judgement of 3 April 2008 – 4 CN 3.07; decision of 11 November 2009 – 4 BN 63.09.

<sup>3</sup> Federal Administrative Court, decision of 9 February 2011 – 4 BN 43.10 – *FOC Neumünster*; Higher Administrative Court of Rhineland-Palatinate, judgements of 15 November 2010 – 1 C 10320/09 and 1 C 10403/10 – *FOC Montabaur*; Higher Administrative Court of Lower Saxony, decision of 18 February 2011 – 1 ME 252/10 – *FOC Soltau*.



- models of a previous season (goods which no longer conform to the manufacturer's current collection),
- remainders (goods that were returned by retailers or which, despite an order being placed by a retailer, were not delivered to it or which it did not accept),
- goods for market testing (goods which do not yet belong to any collection delivered to retail and which serve to test new trends, innovations, developments or effects on their marketability),
- surplus production (goods which owing to a misjudgement of the market development or retail orders were produced beyond the demands of retail).

Again, these requirements and categories are not defined by federal or state law and may vary in specifics from location to location. The categories described above can be seen as a common practice which has evolved over the past years in German planning practice. The administrative courts have approved such requirements regarding characteristics of goods in land-use plans which have set out special areas for DOCs. They have emphasised that municipalities engaged in planning in the sector of large-area retail facilities may take the economic context into account, delineate various types of retail trading and formulate corresponding requirements insofar as the various kinds of use may have effects which are relevant to town planning.<sup>1</sup>

#### 10.2.2 Effects on supply structures, market assessments

In drawing up the land-use plan for a DOC (or other shopping centres) the municipality engaged in planning must pay special attention to the effects of the project on the **supply structure** in its catchment area – with regard to both the municipality in which the DOC is to be located and the neighbouring municipalities. On the one hand, this is due to the prohibition of impairment (see 10.1.1 above) in terms of spatial planning law. On the other hand, land-use plans must be harmonised between municipalities (section 2 (2) Federal Building Code). This means that a municipality may not plan a project at the expense of, and without regard to, the interests of a neighbouring municipality.

In this context, it needs to be determined what effects the planned DOC will have on the supply structures in the catchment area. To this end, a **market assessment** survey is usually necessary. In practice a tried and trusted procedure for making this assessment is to calculate the amount of turnover from other areas that will be diverted into the project. Figures on redistribution of turnover and drain on purchasing power provide an indication of whether and to what extent an impairment of supply structures is to be feared.<sup>2</sup>

<sup>1</sup> Federal Administrative Court, decision of 9 February 2011 – 4 BN 43.10 – *FOC Neumünster*.

<sup>2</sup> Federal Administrative Court, decision of 22 December 2009 – 4 B 25.09; Higher Administrative Court of Rhineland-Palatinate, judgements of 15 November 2010 – 1 C 10320/09 and 1 C 10403/10 – *FOC Montabaur*.

It is important to note that pure decreases in the turnover of individual businesses are irrelevant for the urban land-use planning assessment. Nor do considerations of steering the economy play a role in German planning law. In drawing up land-use plans for DOCs the sole matter of concern is whether the DOC will impair a neighbouring municipality to such an extent that its supply function for the population in the surrounding area will be endangered or negative effects on its town planning are to be feared.

**Generally, harmful effects** in this regard can be assumed if the DOC leads to a redistribution of turnover of at least roughly 10 %. This threshold is also used in the rulings of administrative courts,<sup>1</sup> although not as a rigid threshold but more as a rule of thumb. In particular cases, a redistribution ratio of less than 10 % may also have considerable harmful effects relevant to town planning if, for example, central areas have already been considerably damaged before. Contrarily, sometimes a higher redistribution of turnover may be acceptable and be seen as secondary to other more substantial interests in the municipality's planning assessment. However, in every case this presupposes that the municipality has taken these effects into consideration and arrived to a decision that is proportional in light of the conflicting interests. In practice, what frequently matters is that the market assessment survey and the land-use plan be correctly substantiated.

### 10.2.3 Urban development contracts

When planning a DOC, it has become standard practice for **urban development contracts** (*Städtebauliche Verträge*) to be concluded between the municipality and the investor before the land-use plan is drawn up. In such contracts, the parties typically agree on the key elements of the project. These include the permissible sales area, the range of goods offered, as well as the DOC-specific characteristics of the goods (see 10.2.2 above). Sometimes these provisions are reinforced by contractual penalties. In addition, depending on the specific circumstances of the case and the site, DOC investors can undertake to adopt further measures (e.g. regarding site development, environmental protection, traffic, promotion of retail trade, tourism, etc.).

Administrative courts have frequently upheld such contracts in their rulings.<sup>2</sup> Two constructions are possible: If investors undertake in urban development contracts to adopt further measures which are not included in the land-use plan, the municipality can and must factor this in and base its planning assessment on this.<sup>3</sup> Where the provisions of the land-use plan are backed up by an urban development contract, this helps to ensure that the DOC will be realised as planned. These provisions apply in

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<sup>1</sup> Cf. for example Higher Administrative Court of North Rhine-Westphalia, judgement of 6 May 2005 – 10 D 145/04.NE – *Centro*; Higher Administrative Court of Rhineland-Palatinate, judgements of 15 November 2010 – 1 C 10320/09 and 1 C 10403/10 – *FOC Montabaur*.

<sup>2</sup> Federal Administrative Court, decision of 14 April 2010 – *FOC Ochtrup*; Higher Administrative Court of Schleswig-Holstein, judgement of 22 April 2010 – 1 KN 19/09 – *FOC Neumünster*.

<sup>3</sup> Town planning contracts generally only deal with relevant town planning issues. In particular, duties can be imposed on investors in order to mitigate possible negative effects of the planned DOC (or generate positive effects). In contrast, provisions without a sufficient connection to the planned project and town planning law would be unlawful.



addition to the construction planning requirements of the building permit, which can already be enforced by means of the building authority.

Recently, **spatial planning contracts** (*Raumordnerische Verträge*) have been concluded in connection with some DOC project developments. This means that in addition to the investor and the municipality in which the DOC is to be built, the spatial planning authority is also a party to the contract.<sup>1</sup> On the whole it should be stated that in the past, contracts in support of DOC developments have significantly contributed to ensuring that DOCs are realised as planned and promoted their acceptance.

### 10.3 Building permit and preliminary building permit

#### 10.3.1 Building permit

In order to set up and operate a DOC, a **building permit** is required. The building permit is issued according to the law of the relevant Federal State.

#### **Comprehensive regulation of the building permit**

In the building permit, the **permissibility** of the project under the building and planning law regulations is established, as well as – with a few exceptions – according to all other public-law regulations. In addition to **planning law**, the **building regulations** (*Bauordnungsrecht*)<sup>2</sup> are also included in the examination of the project to ascertain its permissibility. These regulations include provisions on fire protection and escape routes, technical requirements for the safety of the project and the statics, thermal and sound insulation, special regulations for work and common rooms, etc. In many Federal States, the building permit also covers provisions contained in other laws – for example occupational safety and food law, as well as traffic infrastructure provisions but not, however, any building measures necessary for the (public) roadway; these require a separate permit under road law (*Straßenrecht*), which in general is accompanied by an agreement with the road authority (*Straßenbehörde*) on the implementation and costs of the building measures. The fact that most relevant laws are checked in a single procedure by the same authority is in the interest of the developer, as it will generally only need to deal with the building permit authority. The regulatory scope of the building permit is nonetheless limited to the question of whether the project is consistent with **public law** and does not take into account **private rights** of third parties (which could arise, for example, from ownership of the property, rights of way, etc.). The building permit allows the building and all other adjacent structures to be **constructed** and **operated**. A separate operational permit for the DOC is not necessary; in particular it is not necessary to obtain a commercial law licence specific to the site for retail operations.

A building permit is also necessary for **material changes** to a project. Changes are material, for example, if they expand the total useable floor area or the sales areas,

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<sup>1</sup> The subject matter of spatial planning contracts is limited to spatial planning law. As a result, such contracts may only govern matters with a regional (not a merely local) dimension.

<sup>2</sup> In each Federal State an individual state building code (*Landesbauordnung*) applies, which contains differing provisions with regard to competence, organisation of construction administration and the approval procedure.

interfere with the statics of the building, or concern fire protection. A change in the range of goods originally permitted is usually also a material change. Such an **amended building permit** (*Änderungsgenehmigung*) is subject to the same principles as the initial building permit. The altered project (including the existing building and uses) will then to be reviewed comprehensively.<sup>1</sup>

### **Ancillary provisions of the building permit**

As a rule, numerous “**ancillary provisions**” (*Nebenbestimmungen*) are appended to the building permit. These are **requirements and conditions**<sup>2</sup> which comprise binding provisions, just as the building permit does, and become legally binding if they are not disputed within a period of one month. They can be far-reaching and lead to costly measures in the construction and operation of the project. They should therefore be checked for their legality. Such ancillary provisions are only permissible if they are expressly **permitted** or intended to **ensure** that the legal prerequisites for granting the permit will be fulfilled. For the most part, they concern issues relating to fire protection as well as thermal and sound insulation, building materials, the safety of the building, traffic provisions or operating times. They also ensure adherence to the stipulations of the land-use plan (for example in relation to the greening of the building or the range of goods). It is advisable that the planned list of ancillary provisions be **discussed** with the permit authority *before* the building permit is issued, so as to limit the ancillary provisions to those which are expedient and financially feasible. Investors should take advantage of the fact that the permit authority frequently has a certain leeway in its decision-making at an early stage.

### **Legal character of the building permit**

If the legal requirements that are imposed by the building permit authority have been fulfilled, the applicant has a **legal claim** to the issuance of the permit. The building permit is an “administrative act **in rem**” (*dinglicher Verwaltungsakt*) which refers to the property irrespective of its ownership. The building permit can therefore be transferred to a **legal successor** without any problem upon the sale of the development site even *before* the development begins. Should a *developed* property be sold, then the building permit will automatically pass together with the building. As an **administrative act**, a building permit is notified to the developer and, as a rule, also to the neighbours. If the permit is not disputed within one month of notification, it becomes **legally binding**. From that moment onwards, it is essentially unalterable and can no longer be disputed by legal means, at least not by those who have been notified. This applies to the building permit as well as to the appended ancillary provisions. As soon as the building permit has been served to the developer, **construction may begin**.<sup>3</sup> This also applies if third parties have raised legal objections to the building permit by.

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<sup>1</sup> This was decided by the Federal Administrative Court with special reference to the expansion of large-area retail facilities (decision of 12 February 2009 – 4 B 3/09).

<sup>2</sup> Apart from the formally binding requirements and conditions, there are also “remarks” which simply *inform* the developer of particular legal provisions.

<sup>3</sup> In some Federal States a “certificate of release of construction” (*Baufreigabe*) is necessary beforehand. In this procedure, the authority verifies that all conditions and ancillary provisions have been fulfilled, in particular that the stress analysis is available.



In that case, however, it would be advisable to await a (preliminary) court clarification in so-called "expedited proceedings" (*Eilrechtsschutzverfahren*).<sup>1</sup>

### **Validity period of the building permit**

According to the various Federal State laws, a building permit is valid for **three years** as a rule. If no use is made of the building permit within this period, it will expire. It is sufficient if construction has **started** within this period. The duration of validity of the building permit may be extended upon **application**, as long as as the project continues to comply with the substantive building law. Once the building has been constructed on the basis of the building permit, the building permit will be valid for an unlimited period. Should the use of the building be abandoned, the building permit will continue to be valid until either the use is *permanently* relinquished or the building itself is removed.

### **Procedure and competence**

The procedure on the granting of building permits derives from the **Federal State's building code** (*Landesbauordnung*) which is applicable in each case. Quite different provisions may apply here, for example with regard to the participation of neighbours and the scope of the audit. Federal State law also regulates **which authority** is competent to issue the permit. Depending on the size of the municipality in which the project is to be built, different authorities will be competent. In smaller municipalities the county (*Landkreis*) in most cases, while in larger cities it is a municipal authority. Even if the district is competent, the municipality must be involved in the procedure. In any event, timely **coordination** of the project with the municipality and the permitting authority is recommended.

#### 10.3.2 Preliminary and partial building permit

##### **Partial building permit (*Teilbaugenehmigung*)**

If a building permit has been applied for and the approval procedure is dragging on, the developer may apply for a partial building permit covering certain **individual construction phases** (frequently for underground construction). The partial building permit can be issued very easily if it is clear that the project as a whole is permissible.

##### **Preliminary building permit (*Bauvorbescheid*)**

An important instrument is the "**preliminary building permit**". Before a comprehensive and costly building application is made, including statics, the developer may apply for a **binding decision** on particular legal questions in the form of a **preliminary enquiry** (*Voranfrage*). Basic questions, such as whether a property is suitable for development, are often resolved in this way at reasonable costs. If legal disputes with neighbours or neighbouring municipalities can be expected, open legal questions can also be resolved by means of an action against the preliminary permit. The advantage is that – depending on the outcome of the procedure – either the detailed building application can be dispensed with completely, or the results of the procedure

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<sup>1</sup> See 10.4.4.

can be immediately included into the application. The preliminary building permit is **binding** for the approval procedure, and thus provides the developer with a secure position with regard to the decisive questions.

## 10.4 Legal protection and proceedings

### 10.4.1 General remarks, duration, costs

Under German procedural law, both the developer and neighbours may seek legal protection before the courts. In addition, actions by associations or interest groups are becoming more and more institutionalised and regulated. Due to the legal risks involved, all administrative procedures (urban land-use planning, building permit procedure, etc.) must be carried out **with the greatest of care**. In its own interest, the developer should ensure that the authority does not make any errors which could help a neighbour bring a successful action. The **length** of legal proceedings can vary: in proceedings in the main action, each instance lasts an average of one to one-and-a-half years; in expedited proceedings, each instance lasts between four and six months on average. Before some courts and in poorly conducted cases, the proceedings can last considerably longer, contrarily, they can also be shortened.

Duration is one aspect which the investor must consider. Another is the costs. The **court costs** are reasonable, amounting to only a few thousandths of the total investment. **Lawyers' costs** are usually assessed according to time expended and are hard to calculate (although they tend to be low compared to British and American standards). It is important to note that in general, the prevailing party only recovers a part of its lawyers' fees from the losing party (these fees are calculated according to a fixed table in relation not to the amount of time spent, but rather to the total investment amount). It should also be noted that the prevailing party will not receive any damages from the losing party, even if the project has been delayed considerably.

### 10.4.2 Legal protection of developer / owner of property

#### **Action for issuance of permit**

If a building permit is unlawfully withheld from the developer, it can file an action for issuance of the **building permit** (*Verpflichtungsklage*) before the administrative court (*Verwaltungsgericht*). Likewise, the developer can legally defend itself against **ancillary provisions** of the building permit. Appeals can normally be made against decisions of the **administrative court** which will be decided in the second instance by the **higher administrative court** (*Oberverwaltungsgericht*).<sup>1</sup> Only under special circumstances can the losing party file an appeal with the Federal Administrative Court (*Bundesverwaltungsgericht*).

#### **Action against building permits issued to third parties**

The owner of the property may also defend itself against unlawful building permits that were issued to third parties by taking them to court, but only to a very limited ex-

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<sup>1</sup> A separate higher administrative court exists for each Federal State, with the exception of Berlin and Brandenburg, which share a higher administrative court.



tent.<sup>1</sup> Every action requires an infringement of the plaintiff's **own rights**, since German law **does not provide for collective actions**. Individual rights derive from legal provisions that aim at the protection of an individual. As a result, the plaintiff must demonstrate that a legal provision was violated which served to protect not only the general public, but also the plaintiff in particular. This is the case, for example, if a building is to be constructed on a neighbouring property in breach of minimum space regulations (*Grenzabstand*). Or if another project impedes the realisation of the developer's own project in terms of traffic issues. No legal protection exists with regards to competing projects. German building law is **neutral concerning competition**. The owner of a property cannot defend itself against approval of a DOC which is being constructed in close proximity to its own project.

### **Preliminary proceedings before an administrative court**

Before an action can be filed with the courts, in most Federal States an "administrative protest procedure" (*Widerspruchsverfahren*) must have been conducted without success.<sup>2</sup> The developer must file an objection against the administrative decision (e.g. refusal to grant a building permit) which it feels has disadvantaged it. In general – depending on the Federal State – the objection will be ruled upon not by the authority which issued the act but rather by a different authority. Frequently, it is possible to reach an **out-of-court agreement**. A protest procedure usually does not last more than three months. After the three months have elapsed, the developer may bring an action.

#### 10.4.3 Actions of third parties against the building permit

##### **Actions of private third parties**

The same principle (see 10.4.2 above) applies here: the third party may only defend itself against a building permit for a DOC before a court if it can demonstrate that this building permit infringes upon its **own rights**. Opposing actions are therefore only possible to a limited extent. These actions usually have to derive from the immediate area of effect and, for example, assert that the project produces impermissible emissions of hazardous substances or noise. The question of which regulations are protective of third party rights in this respect (besides the minimum space provisions already mentioned) must be analysed in each individual case. Some parts of the provisions of the land-use plan also protect third-party rights. Competitors' actions do not stand a chance of success.

##### **Actions by municipalities and environmental organisations**

In practice, **neighbouring municipalities** often bring actions against a DOC project. Such actions must be taken more seriously. They can be successful if the neighbouring municipality is able to substantiate that the prohibition of impairment (see 10.1.1 above) has been violated at the municipality's expense. The municipality may also assert that its own specific development plans have been impaired or rely on particular

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<sup>1</sup> The action may only be filed within one month after the building permit has been served. After this, actions are no longer admissible.

<sup>2</sup> No protest procedure is required or admissible in Bavaria and North Rhine-Westphalia.

protective stipulations in the regional and state-level development plans. An action may further stand a chance of success if it can demonstrate that the land-use plan which underlies the building permit is invalid. If that is the case, the building permit will have been issued without the municipality's legally required participation in drawing up an effective land-use plan. Many of the details involved in this issue are in dispute, but we will not explore them any further here.<sup>1</sup>

Under specific conditions may **environmental organisations** bring an action against a project which has been approved, in particular if their rights to participate in the administrative procedures have been violated or if the Federal State law has granted them their own right to bring an action (which has only infrequently been the case to date).

#### 10.4.4 Expedited relief

By law, a building permit is immediately enforceable. Thus, the developer can begin the project even if the permit has been contested by a third party with an objection or an action. If a third party proceeds against the building permit, the action in the main matter will **usually** be preceded by **expedited proceedings** (*Eilverfahren*). An expedited proceeding is initiated on the application of the neighbour or neighbouring municipality. In this proceeding, the administrative court considers in a "**summary procedure**" whether the building permit is expected to violate the plaintiff's individual rights. In addition, the **interests of both sides** are assessed: the developer's interest in a rapid implementation of the project, and the plaintiff's interest in stopping the project. Frequently, the legal positions are discussed in a very thorough manner in these proceedings because the administrative court is aware that its decision will have far-reaching consequences if it allows the project to be carried out.<sup>2</sup> The court's decision in the first instance is open to appeal before the higher administrative court.

The expedited proceedings last an average of four to six months for each instance. If the higher administrative court has confirmed the **immediate enforceability** of the building permit and thus allowed construction work to continue, the plaintiff may pursue the proceedings in the main matter. However, in that case the developer can already begin construction on the project. In practice, the courts generally make clear statements in their decisions in expedited proceedings and it is inconceivable that a building constructed on the authority of the higher administrative court would later be removed, even if the court in the proceedings on the main matter could theoretically decide otherwise; such a situation has yet to occur anywhere in Germany. Therefore, as a general rule in practice, a **final decision** is taken in the expedited proceedings

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<sup>1</sup> See for example the decisions of the Higher Administrative Court of Rhineland-Palatinate in the matter of FOC Montabaur (judgements of 15 November 2010 – 1 C 10320/09 and 1 C 10403/10), the Higher Administrative Court of Schleswig-Holstein in the matter of FOC Neumünster (judgement of 22 April 2010 – 1 KN 19/09) and of the Higher Administrative Court of Lower Saxony in the matter of FOC Soltau (decision of 18 February 2011 – 1 ME 252/10 and judgements of 25 April 2012 – 1 KN 215/10).

<sup>2</sup> In this respect we refer by way of example to the expedited proceedings on the Designer Outlet Soltau, Higher Administrative Court of Lower Saxony, decision of 18 February 2011 – 1 ME 252/10 –, confirming that the building permit for DOC may be enforced immediately.



as to whether or not a project may be built.<sup>1</sup> This view is also shared by banks providing finance.

#### 10.4.5 Judicial review proceedings (*Normenkontrollverfahren*)

The building permit for a DOC is usually based on a **land-use plan**, as explained above. The land-use plan is a legal norm, against which a **judicial review proceedings** can be initiated at the competent higher administrative court. The **admissibility** of the application for judicial review<sup>2</sup> requires that the applicant assert a **violation of its own individual rights**; in this respect, the same applies as in the third party's or neighbour's action for a rescission of the building permit. Since municipalities possess a wide variety of rights in urban land-use planning (in part through state-level and regional planning as well), judicial review proceedings initiated by neighbouring municipalities in particular are by no means infrequent. If the application for judicial review is permissible, the land-use plan will be comprehensively reviewed for its formal and substantive legality.

Due to the complexity of the procedure for drawing up land-use plans and the assessments underlying each one, such judicial review proceedings do need to be taken seriously. For this reason, special care in the procedure for drawing up a plan is imperative. Should the court come to the conclusion that the land-use plan is flawed, it will declare the plan **invalid**. Certain defects can be remedied by the municipality in a supplementary procedure. Depending on the facts in question, a new land-use plan may be drawn up; but this is very time consuming. The invalidity of a land-use plan results usually in the unlawfulness of the building permit. This unlawfulness can, however, only be asserted in a separate action brought against the building permit (see 10.4.10.4.3 above), as long as the period for bringing the action has not yet expired.

### 10.5 Outlook

The legal requirements for the planning and approval of DOCs in Germany are complex, and the procedures for approval and legal review can be lengthy. Nevertheless, DOC projects can be successfully realised in Germany today, as can be seen in the DOC openings in Soltau, Neumünster and Ochtrup in 2012. In order to achieve this, the investor must be thoroughly familiar with the legal framework of the specific site in question and should also endeavour to contact and cooperate with the competent authorities – the municipality in which the outlet is to be located and the relevant authorities for spatial planning and building permits – at an early stage. This can shorten the lengthy procedures substantially. If the investor takes advantage of the possibilities of exerting influence on the planning and approval procedure as described in this

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<sup>1</sup> Recently the Higher Administrative Court of Saxony (decision of 22 November 2010 – 1 B 167/10 – *FOC Wiedemar*) confirmed the immediate enforceability of a building permit for a DOC in the neighbourhood of Leipzig without making a firm statement on the legality of the building permit, just by balancing the diverging interests. Such behaviour is an exception.

<sup>2</sup> The application is only permissible within a year of the land-use plan coming into effect. Thereafter, the land-use plan can no longer be directly attacked in court. Nevertheless, the administrative courts do incidentally check the land-use plan's legality in proceedings permissibly brought by third parties; in the event that they discover a significant error, they may not apply the land-use plan.

article and follows the procedure in an active way such that any mistakes can be discovered or avoided at an early stage, this will minimise the risk of legal proceedings against the DOC project. Once the German courts have upheld a DOC project, the investor will enjoy a great measure of certainty regarding planning and investment. It can be assumed that over the next few years, a number of projects will be successfully realised in what remains an “underserved” DOC market in Germany.

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# 11. Austria

Austria is located in the heart of Europe and has common borders with eight countries: Germany, Switzerland, Lichtenstein, Italy, Slovenia, Hungary, Slovakia and the Czech Republic. Due to the Alps the Austrian topography is characterized by a highly mountainous terrain which correspondingly determines the specific structure of settlement. The capital city is Vienna. Austria is one of the richest countries in Europe according to the purchasing power per capita.



Source: The CIA World Factbook

## Country Profile for Austria

|   |                                   |  |
|---|-----------------------------------|--|
| Area  | 83,871 km <sup>2</sup>            |  |
| Population                                  | 8,451,860                         |  |
| Population Density                          | 101 inhabitants / km <sup>2</sup> |  |
| Development of Population                   | 2000 – 2005                       | +2.5 %   |
|   | 2005 – 2013                       | +3.1 %   |
|   | 2000 – 2013                       | +5.6 %   |
| Development of Population (Projection)      | 2010 – 2020                       | +2.6 %   |
|   | Total in 2020                     | 8,591,180  |
| Purchasing Power for Retail Goods p.c. in € | 2011                              | 5,984  |
| Retail Market Volume in bn €                | 2011                              | 50.6   |
| Shadow Economy (in % of GDP)                | 2013                              | 7.5 %  |

## Development of Selected Socio-Economic Indicators for Austria 2002 – 2012

|  | 2002   | 2004   | 2006   | 2008   | 2010   | 2012   |
|--|--------|--------|--------|--------|--------|--------|
| Gross Domestic Product (GDP) in bn €   | 220.5  | 234.7  | 259.0  | 282.7  | 285.2  | 307.0  |
| Gross Domestic Product per Capita in €   | 27,300 | 28,700 | 31,300 | 34,000 | 34,100 | 36,400 |
| Gross Average Wage in € per Month  | --     | --     | 2,740  | 2,910  | 3,196  | 3,352  |
| Inflation Rate in % (HICP)*  | 1.7    | 2.0    | 1.7    | 3.2    | 1.7    | 2.6    |
| Increase in Consumer Spending of Private Households in % (in real terms against previous year) | 1.2    | 2.2    | 1.8    | 0.7    | 2.0    | 0.5    |
| Unemployment Rate in %   | 4.2    | 4.9    | 4.8    | 3.8    | 4.4    | 4.3    |
| Average Household Size   | --     | 2.4    | 2.3    | 2.3    | 2.3    | 2.3    |
| Motorisation Rate (cars per 1,000 inhabitants)   | 494    | 505    | 509    | 513    | 528    | --     |

\* = Harmonised Indices of Consumer Prices

Source: eurostat, Germany Trade & Invest, Institut für angewandte Wirtschaftsforschung (IAW), WKO / EU, ecostra

## Outlet Operators Market Shares in Austria (in Regard to Retail Sales Area)

| Rank | Operator                     | Market Share |
|------|------------------------------|--------------|
| 1    | McArthurGlen                 | 73.2 %       |
| 2    | Retail Outlet Shopping (ROS) | 26.8 %       |
| 3    | --                           | --           |



## Outlet Centres in Operation in Austria 2014



Source: Microsoft MapPoint 2013; ecostra



Parndorf Designer Outlet  
 Designer Outlet Straße 1  
 A-7111 Parndorf  
 Austria  
 www.designeroutletparndorf.at



**Centre Data**

|                      |   |                                 |   |
|----------------------|---|---------------------------------|---|
| Type of the Centre:  | • | Micro-Location:                 | • |
| Gross Leasable Area: | • | Distance to Next Motorway Exit: |   |
| Retail Sales Area:   | • | Number of Parking Spaces:       |   |
| Date of Opening:     | • | • at Ground Level               |   |
| Developer(s):        | • | • in a Car Park                 |   |
| Operator:            | • | Parking Free of Charge:         |   |
| Owner(s):            | • |                                 |   |
|                      | • |                                 |   |
|                      | • |                                 |   |

**Construction Phases (Year of Completion)**

**Gross Leasable Area (GLA) in Total**

|                         |   |   |
|-------------------------|---|---|
| Phase I:                | • | • |
| Phase IIa:              | • | • |
| Phase IIb:              | • | • |
| Phase III               | • | • |
| Future Extension Plans: |   | • |

**Retail and Service Offer**

**Footfall (Number of Visitors per Year)**

|                                |   |       |   |
|--------------------------------|---|-------|---|
| Total Number of Outlet Stores: | • | 2009: | • |
| Units for Eating & Drinking:   | • | 2010: | • |
| Units for Tourist Information: | • | 2011: | • |
| Total Number of Units:         | • | 2012: | • |
| Occupancy Rate:                | • | 2013: | • |

**Brand Selection (Company Stores)**

|   |   |   |   |
|---|---|---|---|
| • | • | • | • |
| • | • | • | • |
| • | • | • | • |
| • | • | • | • |
| • | • | • | • |
| • | • | • | • |

**Average Grade in the Factory Outlet Performance Report Europe (1 = much better; 5 = much worse)**

|       |   |       |   |       |   |       |   |
|-------|---|-------|---|-------|---|-------|---|
| 2013: | • | 2012: | • | 2011: | • | 2010: | • |
|-------|---|-------|---|-------|---|-------|---|

**Contact**

|                               |                                   |                                |
|-------------------------------|-----------------------------------|--------------------------------|
| <b>Address Outlet Centre:</b> | <b>Address Centre Management:</b> | <b>Address Leasing Agency:</b> |
|-------------------------------|-----------------------------------|--------------------------------|



All center profiles (incl. center data) are only available in the full version of this report!



# Contact Data of the Essays Authors

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Dr. Joachim Will  
ecostra GmbH  
Luisenstraße 41  
D-65185 Wiesbaden  
Phone: +49 (0)611 716 95 75 0  
Fax: +49 (0)611 716 95 75 25  
Email: joachim.will@ecostra.com  
Web: www.ecostra.com

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Thomas Terlinden M.A.  
ecostra GmbH  
Luisenstraße 41  
D-65185 Wiesbaden  
Phone: +49 (0)611 716 95 75 0  
Fax: +49 (0)611 716 95 75 25  
Email: thomas.terlinden@ecostra.com  
Web: www.ecostra.com

---



Dr Caroline Lamy  
CL Outlet Consulting  
11 rue Gautherin  
F-10000 Troyes  
Mobile: +33 (0)611 465 406  
Email: cl@cl-outlet.com  
Web: www.cl-outlet.com

---



Béatrice Pubellier  
BrandCity Outlet Center  
Leninskij Area, km 26 of MKAD  
RU-Moscow  
Phone: +7 495 238 8018  
Email: director@outlet-bc.ru  
Web: www.outlet-bc.ru

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Eduardo Ceballos Fernández  
Neinver  
Francisca Delgado, 11 – 5ª planta  
E-28223 Alcobendas, Madrid  
Phone: +34 91 490 22 00  
Fax: +34 91 490 23 01  
Email: eceballosf@neinver.com  
Web: www.neinver.com

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Mag. Thomas Reichenauer  
ROS Retail Outlet Shopping GmbH  
Mariahilferstraße 136 -Top 2.05  
A-1150 Vienna  
Phone: +43 (0)1 236 72 89 5101  
Mobile: +43 (0)664 413 58 91  
Email: thomas.reichenauer@ros-management.com  
Web: www.ros-management.com

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Adrian Nelson  
McArthurGlen Group  
Nations House, 3rd Floor  
UK-London  
W1U 1WH  
Phone: +44 (0)20 7535 2300  
Email: a.nelson@mcarthurglen.com  
Web: www.mcarthurglengroup.com



Prof. Christoph M. Achammer  
ATP Architekten und Ingenieure  
Heiliggeiststraße 16  
A-6010 Innsbruck  
Tel.: +43 (512) 5370-0  
Fax: +43 (512) 5370-1100  
info@atp.ag  
www.atp.ag



David Williams  
Gallant Outlet Services  
26 Kimbolton Road  
UK-Bedford  
MK40 2NR  
Phone: +44 (0)1234 880 788  
Mobile: +44 (0)7919 057 329  
Email: david@gallantoutlets.com  
Web: www.gallantoutlets.com



Prof. Dr. Christoph Moench  
Gleiss Lutz Rechtsanwälte  
Friedrichstraße 71  
D-10117 Berlin  
Phone: +49 (0)30 80 09 79 171  
Fax: +49 (0)30 80 09 79 979  
Email: christoph.moench@gleisslutz.com  
Web: www.gleisslutz.com



Dr. Jan Hennig  
Gleiss Lutz Rechtsanwälte  
Friedrichstraße 71  
D-10117 Berlin  
Phone: +49 (0)30 80 09 79 108  
Fax: +49 (0)30 80 09 79 979  
Email: jan.hennig@gleisslutz.com  
Web: www.gleisslutz.com



# Glossary

## **Type of the Centre**

Architecture of the centre can be described either as "village", "mall" or "strip".

## **GLA**

Gross Leasable Area – The GLA is defined as the sum of the gross horizontal areas of the several floors of the centre designed for tenant occupancy and exclusive use, including any basements, mezzanines and upper floors. The GLA is measured from the centre line of joint partitions and the exterior faces of the exterior walls.

## **Retail Sales Area**

The retail sales area is the part of the store area occupied by retail businesses (not restaurants, cafés or services) which is accessible for costumers and reserved for sales, inclusive the aisles and the checkout zone but without stairs, office, warehouse and social spaces.

## **Micro-Location**

The micro-location of the centre is classified either as "City Centre", "Urban District (outside City Centre)", "Periphery / Commercial Area" or "Middle of Nowhere / Greenfield Site".

## **Occupancy Rate**

Number of units that are currently let to tenants and used as outlet stores, restaurants etc. related to the total number of units in the centre.

## **Ø Grade in the Factory Outlet Centre Performance Report**

Ø grade in the range from 1 (= "much better") to 5 (= "much worse"). The average is based on the aggregated assessments referring to the performance of single outlet stores in the outlet centre. Assessments by brand manufacturers and licensees with at least 3 outlet stores in 3 different outlet centres in Europe. Average of these centres with at least 3 single assessments from 3 different brand manufacturers or licensees in the respective year.







ecostra GmbH

Economic, Location and  
Strategy Consultancy in Europe

Luisenstrasse 41  
D-65185 Wiesbaden

Tel. +49 – (0)611 – 71 69 575 0  
Fax +49 – (0)611 – 71 69 575 25

[www.ecostracom](http://www.ecostracom)  
[info@ecostracom](mailto:info@ecostracom)