



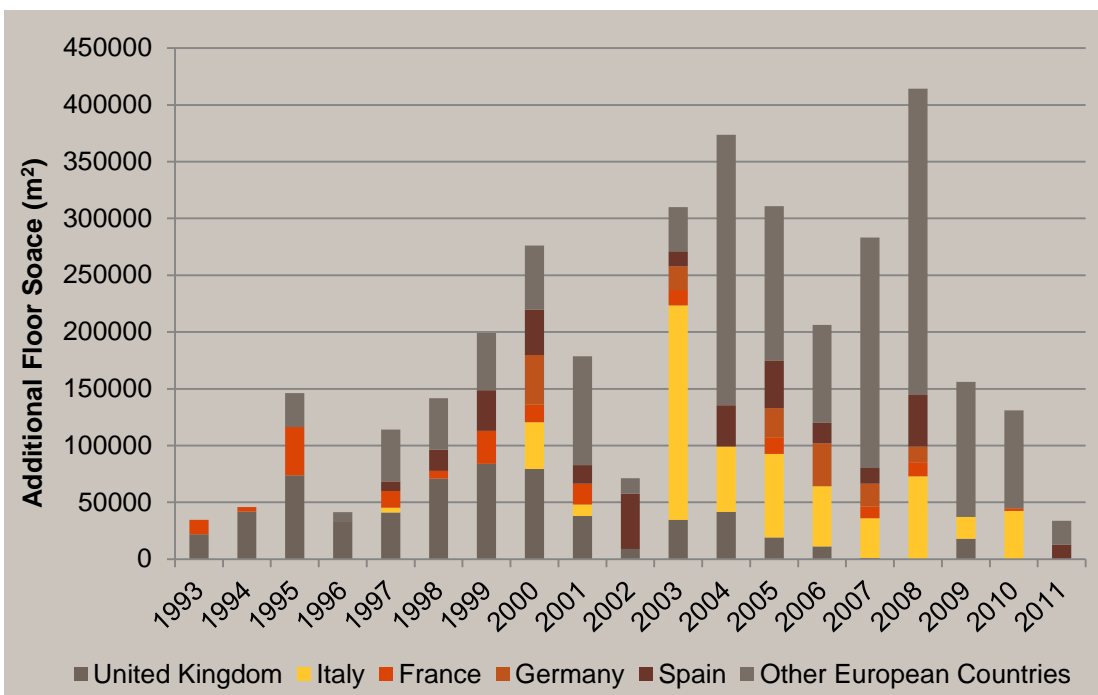
Trading Gap and Outlet Centre Research

September 2011

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- The European outlet centre industry has grown rapidly since the late 1990s
- A third of floor space is less than 5 years old
- While many schemes have been successful, a number have failed to achieve their full potential. These are attracting a new generation of asset managers and growth focused investors
- In addition to feasibility assessments, FSP increasingly undertakes *Trading Gap* studies to help investors grow rental income. The *Trading Gap* prioritises areas where operational, leasing and marketing initiatives will be most effective
- The approach complements traditional detailed survey and qualitative research and should be undertaken first in order to maximise the benefits of these more expensive techniques
- Where correctly deployed, good research has created some of the best performing outlet centres in Europe identified new opportunities for successful schemes and resulted in the doubling of turnover at underperforming schemes. Research techniques are now tried and tested and the best suppliers can provide a wealth of practical examples and essential outlet centre performance benchmarks
- This is generating confidence in the growth potential of schemes and will play a key role in the development of the next generation of successful investments

Outlet centres are one of the great retail success stories of the past 30 years. After its initial introduction from the US in the early 1980's, the format grew rapidly in Europe with bursts of development activity in France, the United Kingdom, Spain, Italy and more recently Central and Eastern Europe. Today the European industry comprises 221 schemes totalling 3.6 million square feet in 25 European countries.



One third of European outlet centre provision is less than 5 years old and in immature markets (excluding France, Germany, Italy, Spain and the United Kingdom) the proportion is

over half. Plans exist for a further 120 schemes, totalling 2.1 million square feet, with expansion into new countries including Estonia, Finland, Russia, Serbia, Slovakia, and Ukraine.

Many outlet centres such as Clarks Village, La Vallee, Parndorf, Bicester Village or Serravalle are great commercial successes and have become household names. However this success has not been repeated universally. A number of schemes have either failed to achieve initial expectations or declined after a strong start, the principal reasons including:

- Weak consumer spending
- Lack of occupier demand / poor tenant line up
- Poor design
- Lack of consumer draw
- Poor stocking
- Weak branding and ineffective marketing
- Inexperienced or unfocused management
- Competition from superior schemes

There are growing numbers of 'wounded' schemes across Europe. They have led to some investor concern about the sustainability of the sector. Equally, they have spawned a new generation of entrepreneurial investors looking to exploit opportunities to resuscitate and improve tired schemes. In recent years, for example, McArthurGlen has rejuvenated Messancy and Berlin, Resolution Property has Park Avenue in Bilbao, Chester Properties has completely reversed the fortunes of Festival Park in South Wales and ROM Capital is working to restore Clacton.

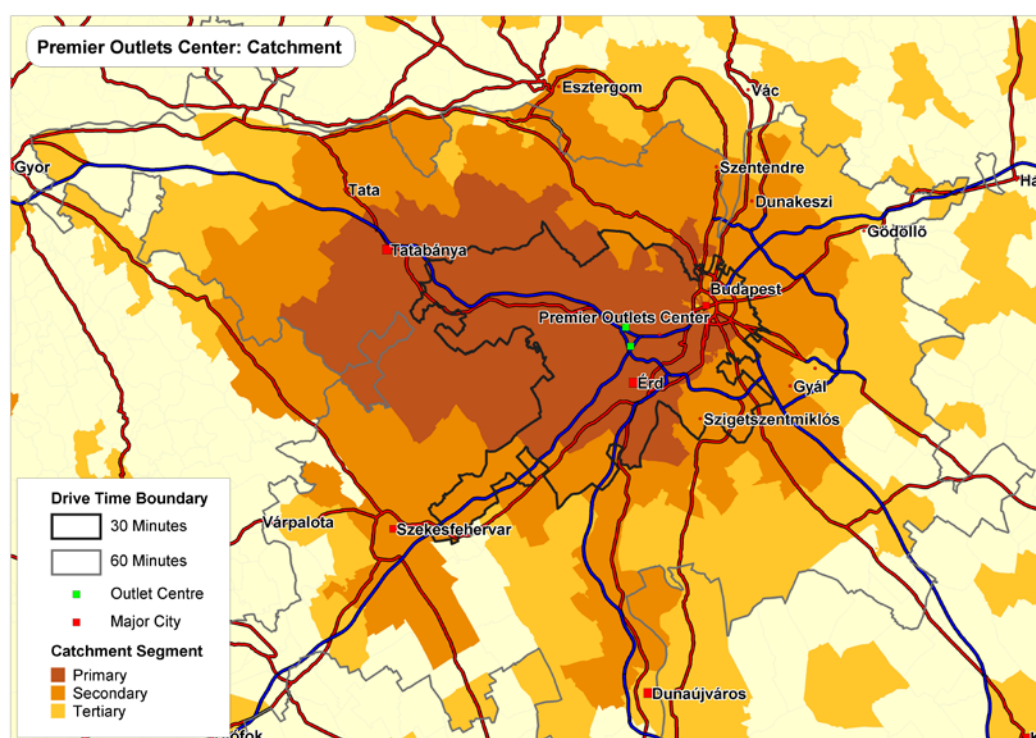
Having been involved in the improvement of trading outlet centres for over a decade, FSP believes that the outlet centre format offers huge potential for investors. Achieving the strongest growth possible however, requires that asset management decisions are based on robust and reliable market intelligence. This has led FSP to develop its *Trading Gap* analysis

FSP's *Trading Gap* research prioritises areas where management, leasing and marketing initiatives will be most effective in growing turnover and rental income. The research incorporates shopper surveys, expenditure estimates, lifestyle profiles and turnover data to assess trading performance, and combines local outputs with key outlet centre performance benchmarks to identify the realistic scope for sales growth.

A robust and accurate definition of the catchment is a key element. Samples of less than 1,000 are woefully inadequate in capturing a representative sample of visitors who may well travel for over 90 minutes, just two or three times a year. Typically a sample of 500 to 1,000 will be biased towards those visitors who live close to the outlet centre. FSP has seen several examples of small survey samples that have led operators to target the wrong customer groups.

FSP recommends using samples of up to 5,000 respondents. The map below shows the catchment from which 90% of shoppers at Premier Outlets Center in Budapest originate, derived from a survey of 5,046 visitors in March 2011. The large sample has enabled FSP to take account of geographical features such as the River Danube, major competing centres, the important motorway network and the natural friction of distance. The result is a reliable catchment definition which

includes 3.7 million residents, with substantial outlet centre merchandise spend in excess of €5.2 billion.



A robust and accurate catchment also allows FSP to produce a reliable estimate of the potential shopper expenditure at an outlet centre. Shopper expenditure is the annual potential spend which accompanies visitors to the subject location, regardless of whether it is converted into turnover or not. For example, if a catchment contains total resident spend potential of €2 billion and an outlet centre achieves a penetration of 3%, then the annual potential shopper expenditure at the outlet centre would be €60 million. Although more difficult to calculate, shopper expenditure is a much more realistic measure of an outlet centre's trading potential than simple (and often unrealistic) drive time estimates.

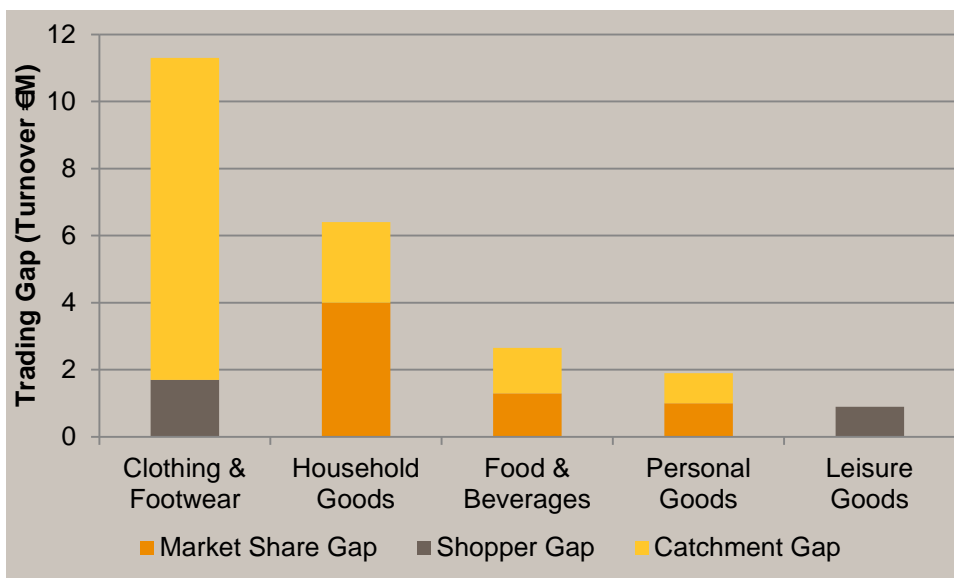
Having defined an outlet centre's catchment, it is possible to assess trading performance and the *Trading Gap* opportunity by assessing three important areas:

- **Market Share Gap** is the additional turnover in each merchandise category achievable through improving the spend conversion of current shoppers. FSP consultants have worked on over 60 outlet centres in 20 countries and draw upon this experience to establish a realistic market share performance (turnover as a proportion of potential shopper expenditure) for each merchandise category
- **Market Share Gap** is the easiest gap to close as the shopper expenditure is already attracted to a site but is untapped due to deficiencies in the retail offer. Typical deficiencies include a lack of recognisable brands, narrow price ranges, poor stocking, under representation of complementary merchandise categories such as homeware or food & beverage and failure to match the offer to the unique lifestyle requirements of core shopping groups
- **Shopper Gap** focuses upon identifying specific underperforming zones within the catchment. Underperformance occurs where an irrelevant offer or inappropriate

(or insufficient) marketing activity attracts fewer shoppers than expected, given the resident population and accessibility to the outlet centre

- *Catchment Gap* identifies opportunities to significantly grow footfall by increasing an outlet centre’s penetration of its catchment. *Catchment Gap* can be the result of insufficient floor space provision (relative to the size of the catchment), a poorly differentiated offer (in relation to competition), vacant outlets or insufficient or inadequate marketing. As the average size of a European outlet centres is around 15,050 m², *Catchment Gap* can often be the most substantial opportunity for an investor. However, as the solution requires development led improvements of the retail offer, strong management and better positioning of the centre, opportunities may take 3 to 5 years to fully realise

The chart below illustrates the *Trading Gap* for a European outlet centre. Like many outlet centres, the emphasis on Clothing & Footwear means that performance is generally good in this sector and there is consequently no *Market Share Gap*. However, existing shoppers are unsatisfied by the household goods (china, electrical equipment, tools and home furnishings), personal goods (jewellery, perfume and cosmetics) and food & beverage sectors and there is a *Market Share Gap* of €6 million which could be closed by improving the retail offer.



FSP has also identified underperforming catchment zones which could be targeted by marketing activity. Communication needs to be appropriate for the lifestyles within these zones. Assuming this is so, the *Shopper Gap* opportunity is worth an additional €3 million in turnover, two thirds of which would be increased Clothing & Footwear sales.

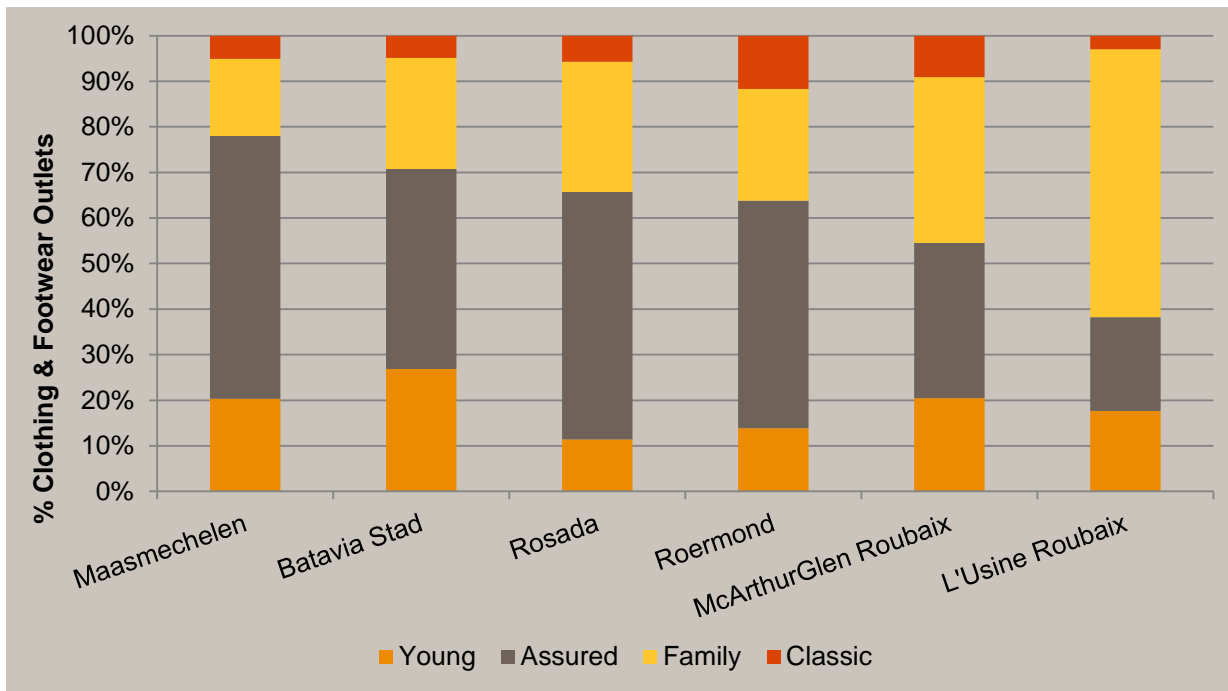
The *Catchment Gap* indicates an opportunity to increase the penetration of the outlet centre throughout its catchment area. FSP estimates that if the centre attracted a similar share of catchment residents to other major outlet centres, turnover would increase by €14 million.

The above example identifies total sales growth potential of €23 million (or an uplift of 65% of the current turnover at the outlet centre). The *Trading Gap* approach has not only presented potential investors with an accurate assessment of the scale of

opportunity but has also helped identify the potential challenges and timescales associated with releasing the untapped turnover. This makes *Trading Gap* a simple and highly cost effective approach, which is particularly useful as a pre-acquisition tool.

Having acquired an outlet centre or identified the *Trading Gap* at an existing investment, clients typically engage research to develop and refine asset management strategies to realise the trading opportunity. Experience is essential in deploying the most appropriate research techniques to directly address the particular local trading issues. A thorough understanding of consumer research techniques and outlet centre performance, combined with the ability to clearly explain findings to asset managers and potential occupiers is therefore important to ensure that recommendations are effectively implemented.

Where a substantial *Market Share Gap* has been identified, it is normal to undertake a statistical assessment of occupier mix and identify absent retailers. *Tenant Mix Analysis* focuses upon deficiencies in the retail offer, occupier performance, available shopper expenditure, competing retail offers and shopper lifestyles to identify the best balance of trading activities for an outlet centre in terms of merchandise categorisation, price position, brand strength and FISH (FSP's unique segmentation of occupiers).



The example above compares the broad composition of Clothing & Footwear occupiers at 6 competing outlets according to FISH life stage perception. It can be seen that L'Usine Roubaix has an unusually strong bias towards fashion for the *Family* life stage (cost conscious households, where necessity comes before self-indulgence). Maasmechelen, like many upscale European outlet centres, is more focused upon fashion for *Assured* shoppers (sophisticated in choice, confident in their style and not led by peer pressure). Batavia on the other hand has a strong representation of outlets serving the *Young* life stage (where purchases are led strongly by peer pressure to conform).

Understanding the particular image shoppers wish to project in their fashion is an essential step to establishing a balanced retail offer. Once shopper lifestage, affluence and neighbourhood type (e.g. metropolitan, suburban or rural) has determined this, it is possible to next identify the most suitable occupiers using a comprehensive database of classified outlet centre occupiers.

Where a substantial *Shopper or Catchment Gap* has been identified, FSP routinely follows up a *Trading Gap* study with detailed consumer research. Although much can be accomplished with detailed surveys, FSP also makes extensive use of qualitative research, particularly *Focus Groups* and *Mini Depth Interviews*. *Focus Groups* are typically 60 minute interactive panel sessions which are held off site, while *Mini Depth Interviews* are 20 minute face to face interviews which are conducted in a quiet space just off the outlet mall. Although not inexpensive, well-constructed qualitative research is highly cost effective. It has been used with great effect to develop future leasing strategy, to inform architectural design and to direct changes in the operational management of centres.

Use of experienced moderators, well planned topic guides and careful selection of participants is essential to the success of qualitative research. For example, the more that is known about existing shoppers at an outlet centre (through a *Trading Gap* assessment), the more precise the selection criteria for potential respondents. These circumstances will allow participants the opportunity to fully explore a range of defined subjects. These might include current shopping habits, use of competing sites and reactions to scheme designs. FSP has used qualitative research to identify how a particular occupier mix and branding could be evolved to increase the frequency of visit and value of spending.

Over the last decade, high quality research has become the bedrock of modern asset management decision making and growth strategies. In the hands of experienced professionals, the combination of qualitative, quantitative and statistical techniques is very powerful. It can be shaped to estimate the scale of potential growth, prioritise the strongest opportunities and identify the best strategies for improvement. It can further deliver change through integration within the marketing, leasing and operational activities of outlet centre management.

A research based approach is effective in many circumstances. It has created some of the best performing outlet centres in Europe. It has been used to identify new strategic opportunities for already successful schemes. It has resulted in the doubling or even trebling of turnover at underperforming schemes. The range of research techniques is now tried and tested and the best research suppliers can now provide a wealth of practical examples and essential outlet centre performance benchmarks. With more outlet centres in the development pipeline and a number of recent schemes struggling to reach full potential, the research based approach is generating investor confidence in the growth potential of European outlet centres and will play a key role in the formation and evolution of the most successful schemes over the next decade.