

## COMPANIES &amp; STRATEGIES

# Discount— but not a hint of cheap

A chip off the real estate block brings a tony version of America's outlet mall across the Atlantic.

BY RICHARD HELLER

Scott Malkin came to live in England in the early 1990s because he saw big opportunities in Old World real property. The Berlin Wall had come down, and a U.K. property bubble was deflating. Malkin arrived with a J.D. and M.B.A. from Harvard—swell enough—but more important, a good lineage for real estate development. He is the grandson of the late Lawrence Wein, a New York City real estate investor and adviser who was Harry Helmsley's partner in his heyday and John D. Rockefeller Jr.'s real property guru. And his father and brother continue to operate the family's real property company in the U.S., W & M Properties.

By 1995 the grandson had his eye on one of three lots in the former East Berlin, to the east of the old Checkpoint Charlie, at the corner of Friedrichstrasse and Lindenstrasse. But Malkin was outbid by Tishmann Speyer, and he had to come up with something novel. His plan was to syndicate the development of what he calls outlet villages, which would feature the discount retailing of luxury goods. It was a variation on a particularly American phenomenon that did not exist in Europe in 1995.

The notion involves attracting major luxury brands to operate discount stores of their own in carefully controlled environments. He knew the trade. In 1989, his SD Malkin Properties opened a 12,300-square-meter full-price-brand complex at 2 Rodeo Drive in Beverly Hills, California. His principal backers

were the same wealthy investors, family and friends to whom he now looks for support in Europe. He has added Deutsche Bank; Hammerston, a property development company in the U.K.; and Lehman Brothers.

Malkin also had some American friends in the fashion discount business, Barry Ginsburg and David and William Bloom, who controlled Chelsea Property, an operator, now listed on the New York Stock Exchange, of some 25 discount plazas in the U.S. (and some in Japan). They include Woodbury Common, a 220-store mall 50 kilometers north of New York City. In 1995 Chelsea was focused on its U.S. position, but Malkin convinced the principals that his variation would work for Europe. Chelsea took a 12.5% stake in what became Value Retail, based in London.

Malkin determined to build an outlet village that would sell luxury-goods "surplus," not rumped demonstration products or off-grade goods, in an up-market setting in stores that emulate full-price outlets in elegant presentation and service. "At that time in Europe," he says, "what you found were dingy warehouse outlets operated by third parties with piles of luxury-goods seconds stacked up on tables. Bargain-basement stuff. We wanted outlet villages with elegant stores operated by the brands themselves."

Value Retail's first effort in 1995 was Bicester Village in Oxfordshire. Tenants



Some haul: Scott Malkin bags a cut of the carriage trade in Oxfordshire.

include Ralph Lauren, Zegna, Paul Smith, Aquascutum, DKNY, Burberry, Valentino, Dunhill, Max Mara, Ferragamo, Gieves & Hawkes and Versace. Other than apparel, there are Wedgwood, Villeroy & Bosch and Tag Heuer. All brand operators are required to sell goods for at least 30% below full price. They take their outlets seriously. Adrian Chantler, the manager of the Zegna outlet, says, "I trained in Milan with the Gillo Zegna. This store is a real part of our overall operation."

It works for the luxe crowd because to ensure that they never lack a color or size in their High Street shops, they must overstock them. The outlets take care of what's left—when for one reason or another something stylish and well made doesn't sell at full price.

Value Retail's outlet villages are by no

means huge, 16,000 square meters with about 90 stores each. In addition to Bicester, they have two in Spain and one each in France and Belgium. Construction has started in Italy and Germany (where Malkin had to persuade fair-trade officials that his opulent villages supplement, rather than threaten, urban center stores).

Value Retail's operations differ from the general outlet model by being determinedly highest-end and not trying to feed or entertain. No McDonald's cafes, no games centers. Malkin says, "These are not shopping malls. Some of our competitors have customers who visit them once a week. Our customers come [only] four or five times a year. But they come to spend."

Malkin, 43 and married with four children, knows who butters his bread.

"Women pull their families along," he says. "And women are increasingly brand-conscious. Our target audience likes to use brands to create their own wardrobes."

Katherine McLeod, the wife of a London banker and mother of two, says: "I'm not tied to the fashions of the moment. I like to create my own outfits out of very good products. Bluntly, I can't, or at least won't, pay what I regard as the stratospheric prices charged by the London West End stores. So I drive out to Bicester several times a year and stock up on well-made Nicole Farhi blouses or Max Mara skirts. And while I'm there, I buy good shirts and ties for my husband or an elegant Aquascutum raincoat. And then there are presents for relatives."

Malkin infuses the properties with

local ambience: Bicester has the feel of an English village. La Roca Village, near Barcelona, has a distinctly Catalonian air. His crews set the tone. "Half of our staff comes from a luxury brand background," says Malkin. "Our goal is to attract the right brands, to discipline the outlets."

He and his backers have a stake in keeping operations humming. They don't look for a quick capital gain. Instead, their annual return is based on a share (said to average 10%) of the gross sales. "What we do is create an ongoing value-added business, a going concern, on each site," he says.

The Malkin model is a limited partnership for each outlet village; he serves as general partner. Bicester cost \$25 million to build; the latest projects—which are opening with more units than Bicester had at the start—approach twice that. How does it pencil out? Sales at Bicester are estimated at \$175 million a year (Malkin won't confirm that level, but at \$11,000 a square meter, the sales/area ratio would be about three times what Chelsea's U.S. outlet centers take in and, accord-

ing to sources, as much as double what his competitors in the U.K. get.) If so, that's \$17.5 million in revenue for Value Retail, some part of which the partnership will share after paying down the development loans. "I'm not shooting to be a profit-and-loss hero," says Malkin. "Cash flow is my game, and we thus make frequent cash distributions to investors."

All he needs for the formula to work is the continuing price escalation on High Street to support demand. "My grandfather died when I was 29," says Malkin. "I was already thinking of breaking away from strict real property investment. I told him a bit about my idea of applying entrepreneurial thinking to real property. He listened, and finally he said, 'Scott, if you believe in that, you go for it.' And I have." □

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