

← Chris Warren, partner at Cushman & Wakefield and a factory outlet expert, says: 'The factory outlet sector is now much more acceptable to institutions because the turnover rents are now acceptable. Investors can see the historical proof that the income achieved is sustainable. The past 10 to 12 years of schemes still in existence prove this.'

Value Retail's footfall for its eight centres for 2006 - not including Kildare, which opened during that year - reached 18 million people. Total sales for the group for 2006 grew 27%, and like-for-like, sales were up 9.3%.

Factory outlets may now seem like a great opportunity for institutional investors, but when Malkin shed everything in the early 1990s to set up the Bicester Village outlet instead of joining the family business like his brother, it was a leap into the unknown.

Malkin, dressed in his trademark cowboy boots, explains: 'I wanted to be part of the process of creating value. In property development you can build sheds and prelet

smaller company offers. Drinking fruit juice and Diet Coke while people around him at the Wolsley tuck into afternoon tea and cakes, he says he enjoys the risk that comes with being part of a small company rather than a larger, safe institution.

It is not only Malkin who has shied away from the big-company ethos. Of Value Retail's staff, more than 90% are from retailers such as designer Donna Karan's cheaper brand of DKNY or Louis Vuitton or stores such as Harvey Nichols or the Printemps department store in Paris.

His people like working for a business where each centre is separate and managed by its own local team rather than run from a central head office.

WORK ETHIC

He adds: 'I work closely with the senior six to eight people here and we work for one another. They don't work for me. These people fled the corporate world. They are probably making less money but they are enjoying it.'

Malkin seems to understand the retail business. 'We see the difference between those who operate a good back of house and those who do not,' he says.

But he is evasive on the question of whether he would become a retailer or a designer himself.

'Designers have incredible pressure,' he says. 'Creative guys like designers are now judged every six weeks with every micro-collection released. Every few years there is a new phenomenon and it is incredibly difficult to sustain any position.'

As to the future he says: 'We don't build and sell: we are here for the long term. We hold.'

He believes expansion will be three-pronged. 'We are building in five countries, extending existing centres and, for a small company, we are creating a lot of value through expansion,' he says.

Value Retail expects to increase gross lettable area by 20% to around 1.8m sq ft.

The second route of expansion is new locations and new villages. Value Retail has nine locations and Malkin says they could get to 12 in the future, 'but not to 20'. Locations could include Moscow, Warsaw and Dubai.

Malkin says his third route will be working with the designer companies that he knows so well, but developing stores for their full-price merchandise - similar to what he did with Rodeo Drive.

The world of factory outlets has changed in the UK over the past 12 or so years and retail as a whole has moved on immensely.

Primark, TK Maxx and the supermarkets have proved popular sources of fashion, and the 'pile it high, sell it cheap' mentality has been very successful.

But similarly retailers selling quality, good-value products such as John Lewis have also been popular.

Malkin compares it to McDonald's vs Wolsley. It is quantity versus quality, where both are very successful but at completely different ends of the scale.

Malkin says: 'When we started in the UK the average price paid by a woman for a pair of shoes was £11. This meant there were a few women spending very little on shoes, many people spending about £11 and a very small minority spending hundreds of pounds.'

This ratio of how many women are willing to spend a lot of money on shoes may still be similar today, but as long as there are enough women willing to buy designer clothes at discounted prices, Malkin and his team will be there to provide them. ■



↑ Ah, Bicester: the village has 3.5 million visitors and £780/sq ft sales each year

and presell, while at the other end is speculation in the extreme - like hotel development where there is very little certainty.

'Look at Sinclair Beecham, who has built the Hoxton Hotel in London - creating exactly what he thinks is missing in the sector. It is fantastic what he has done. We did what Sinclair had done with the Hoxton at Bicester. We took a development risk.'

Malkin is clearly not keen on the way of life in a large company. He works in a small office in Mayfair but spends most of his time travelling Europe. He clearly likes the freedom that a

One such gem in the Value Retail crown is Desirée Bollier, formerly a Ralph Lauren executive. Bollier is Value Retail's chief executive officer and is as passionate about the business as Malkin.

Malkin rents rather than buys a house in London and invests much of his money back into the business because 'I can rent larger houses than I can afford to buy in London and I want a big house for my kids to grow up in'.

Malkin has four children who have all grown up in the UK. But Malkin clearly wants to stay in touch with his roots. He wears the cowboy boots because, 'I am clearly American and I might as well make sure people are aware of this as soon as they see me.'

Global retail

“When it comes to retail, location is everything”

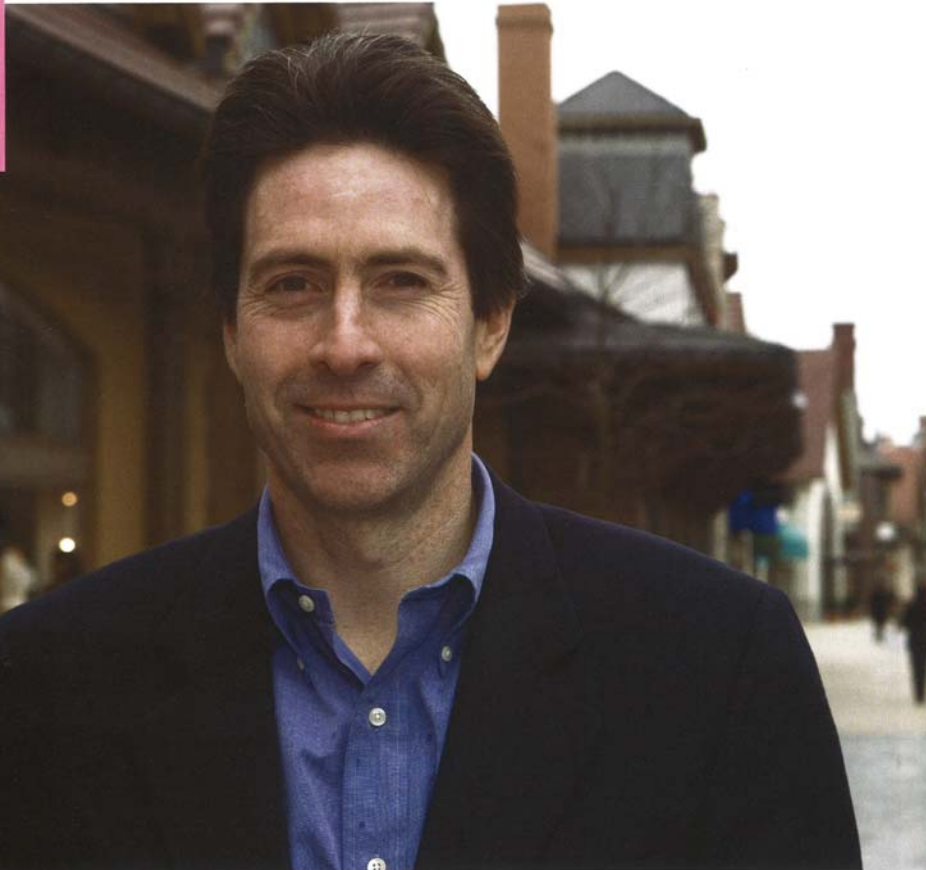


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SCOTT MALKIN IS HIGH MAINTENANCE. THE MAN credited with bringing the US concept of the factory outlet to Europe has admitted as much.

But we are not talking Naomi Campbell-style temper tantrums or a penchant for facials and blow-drys every day – rather, his business is high maintenance.

Malkin, founder of Value Retail, is the father of Bicester Village in Oxfordshire, the New England-style factory outlet, and he insists his business has to be high maintenance.

Property Week met Malkin after opening his ninth outlet in Ireland to discover the secret

behind his successful factory outlet retailing. Surrounded by the high-maintenance women that are his customers, while having afternoon tea at the famous Wolseley restaurant in London's Piccadilly, Malkin explains his expansion plans at a time when factory outlets are becoming an established property sector.

"Our customer is a high-maintenance woman and the retailer who serves this high-maintenance woman must therefore be high maintenance," he says. "Our business has no head office, each location is run by itself. This is high cost but that's the way it has to be.

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"Everything that is done should be backed up by what our customer – the high-maintenance woman – wants or does."

With such high costs and retailers paying rent on a turnover-linked basis, Value Retail is more like a department store operation with concessions rather than a traditional landlord.

Property runs through Malkin's blood. He was born into a family of property entrepreneurs. His grandfather was the late Lawrence Wein, a New York property mogul, and his father and brother run the family business in the US: W&M Properties, owner of the Empire State Building.

THE AMERICAN'S DREAM

■ American Scott Malkin brought factory outlets to Europe. Now he wants to grow across the continent. Laura Chesters met him. Photograph by Sarah Blew

After completing an MBA at Harvard and stints with the family firm and Gerald Hines at Hines in New York, Malkin decided to go it alone.

His first development was an upmarket retail scheme in Los Angeles in the well-heeled district of Rodeo Drive.

But Malkin had other things in his sights. He went to the 'Old World' – England. With partner Chris Harris, then head of London & Metropolitan, and with a stream of investors from overseas, the US and the UK, Malkin's SD Malkin Properties came up with the idea of the UK's first US-style factory outlet mall.

It was 1994 and the Clarks factory outlet scheme – the UK's first – had only just opened in Street, Somerset.

Previously, designer retailers had not been accustomed to selling their old stock from established shops and usually resorted to the traditional factory outlet – literally a shop next to one of their distribution centres or factories.

In fact, many designer brands would cover up any large-scale sale of old stock and simply deny that they had any unsold stock in the first place in a bid to preserve their brand.

This began to change when many designers became public companies, and questions were asked about unsold stock on the balance sheet.

In the early 1990s Malkin saw an opportunity in the UK and, with wealthy backers including London & Metropolitan, he found a site in Oxfordshire and opened the Bicester Village in 1995. The rest, as they say, is history.

Bicester now attracts more than 3.5 million people a year, and the average sales per sq ft works out as £780. Value Retail has gone on to build a further eight outlets in countries

including France, Spain, Italy and Germany. One of Malkin's backers was Chelsea Property Group, a US factory outlet specialist and the world's largest owner of factory outlets. The group was bought out in 2004 by US shopping centre giant Simon Property Group.

The purchase spurred interest among institutional investors and large property companies in the factory outlet sector. In the UK today Land Securities and Hammerson both own or hold stakes in factory outlet centres.

The mis-valuation of European factory outlet developer Freepart last year led to a 19% fall in its share price but did little to stop the strong interest in the sector.

Hammerson took a 7.5% stake in Value Retail after buying Grantchester in 2002, which had bought London & Metropolitan in 1998. Chelsea Property Group has a 7.5% stake and RREEF owns 5%, and the remaining 80% is owned by the management of Value Retail and non-executive directors, including Chris Harris.

POSITIVE ABOUT OUTLETS

Richard Akers, managing director of retail at Land Securities, says: "Scott runs a good organisation and is very much focused on the retailers."

"The nature of factory outlets is that they are based on partnership due to the lease arrangements, which are turnover based. We are very positive about the outlet sector. We first entered it in a joint venture with McArthurGlen in Livingston, and we now have Gunwharf Quays in Portsmouth, the Galleria in Hatfield and in April we open Banbridge in Northern Ireland. We will invest more in the UK if we find the right centres."

WE ARE EXTENDING
EXISTING CENTRES AND,
FOR A SMALL COMPANY,
CREATING VALUE
THROUGH EXPANSION

SCOTT MALKIN
VALUE RETAIL