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# VGM/Real Estate

## Corio puts portfolio of €1.1 billion up for sale

**THE NETHERLANDS** - The Dutch listed real estate fund Corio wants to sell a portfolio of offices and business premises worth €1.1 billion.

The premises that have been put up for sale, represent more than one-sixth of the total value of Corio's portfolio, valued at about €6 billion. It comprises offices worth just short of €900 million and business premises for an amount of approximately €200 million.

Thirty office premises in the Netherlands are being put up for sale, including Weenapoint in Rotterdam and the Noortse Bosch in Amsterdam. The sale of 46,000 m<sup>2</sup> of office space in Hoog Catharijne is also being considered. The latter possible transaction, according to Corio, is still being investigated due to the interrelationship with the Utrecht shopping centre which will undergo redevelopment. In France, seven office and industrial premises are up for sale, which in-

clude the MB9 building in Nanterre. With the sale, Corio wants to make funds available for the development pipeline valued at €2 billion. The company would like to gear itself exclusively towards retail property. Also, the increase in financing expenses

plays a role in the decision to initiate the selling process, because they caused a slight reduction in the direct result. The company hopes that the sale will be concluded by the first half of 2008. The real estate company is still considering how the transaction will take place. For example, a sale in the form of a Dutch and French portfolio, or portfolios of offices and business premises, or possibly the selling of individual premises.

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### Westinvest sells the Allegro portfolio

**GERMANY** - Westinvest has disposed of a portfolio with 25 properties in Germany from its open-ended property fund WestInvest 1 to IVG. The value of the transaction amounts to €505 million. The disposed properties are all in Germany. The transaction was advised on behalf of the vendor by Colliers PropertyPartners. In the future, Westinvest's investments are going to be targeted not only at properties in Germany but also at a mix of properties in other European centres.

### London firm invest in FHO Partners

**UNITED KINGDOM** - FHO Partners, a Boston commercial real estate brokerage, has entered an agreement with DTZ that gives the London-based advisory company the option to buy FHO by spring 2008. DTZ employs 10,000 people operating from 200 offices in forty countries. The agreement includes a \$2 million investment by DTZ, and FHO has re-branded itself as DTZ FHO Partners. If DTZ exercises all its options, the purchase price would be \$35 million.

### Dutch KFN seeks international partner

**THE NETHERLANDS** - The management of the Dutch non-listed KFN and the ABP Pension Fund which has full ownership, have commissioned Morgan Stanley and Kempen & Co to 'investigate the prospects for ABP regarding its investment in KFN'. It's been known in the marketplace for quite a while that ABP wants to sell the majority of its shares in KFN (Kantoren Fonds Nederland). KFN's portfolio, which comprises only Dutch office property, amounted to €1.28 billion at the end of 2006. Vastgoedmarkt has learned that parties from Belgium and Denmark, in the past, have been talking to KFN about establishing the intended European partnerships. A genuine co-operation has not yet been determined. Therefore, Kempen & Co and Morgan Stanley have been called upon for assistance. KFN came about in the 1990's when ABP decided that direct real estate management was not a core activity. Shops, residences and offices were incorporated into separate funds. After an interim period for the establishment of good track records, ABP would reduce its interests. This has happened for the residential and retail funds, but not for offices. KFN has a portfolio of excellent office premises such as WTC Amsterdam (50 percent), WTC Schiphol and 200 Weena. The most important lessees are the Government Buildings Agency, Deloitte and Heijmans.



Mediacity:uk will be one of the most important developments in the UK.

## C&W appointed for mediacity:uk

**UNITED KINGDOM** - Peel Media has appointed international property agent Cushman & Wakefield to assist in the development and promotion of mediacity:uk. Work is already underway onsite at Salford Quays to transform 80.94 hectares of former dockland into an internationally significant industrial community.

The mediacity:uk development will be home not only to the BBC and other leading broadcasters but the full range of media and creative organisations, as well as new retail, leisure and residential space.

Phase 1 of the development comprises 46.45 m<sup>2</sup> office buildings, broadcast studios (20.85 m<sup>2</sup>), post production facilities (3.7 m<sup>2</sup>), a 206 bed 3 star hotel and 371 apartments due for completion in 2011.

Ed Burrows, Property Director of Peel.

'The scale and reach of this development makes it one of the most significant instructions in the Country. We are focusing initially on ensuring that the mediacity:uk offering is the number one choice for the whole of the media industry and believe that Cushman and Wakefield's international expertise is ideally suited to assisting the team create the best environment to attract a range of media and creative industries.'

'mediacity:uk will be one of the most important commercial led developments in the UK in the next decade,' says Tony Bray, Head of North West Business Space at Cushman & Wakefield. 'Both its scale and focus on the technology, media and telecoms sector mean it will provide a world class business environment for both national and global firms. We will be leveraging Cushman & Wakefield's global platform to attract world renowned tenants to complement the BBC and we are extremely pleased to be able to work on a project which will impact significantly on the economy of the North West.'

Once complete, mediacity:uk will deliver over €294 million in additional net value added each year. It will attract private investment of over €441 million in the first phase alone, provide space for an estimated 1,150 media, creative and related businesses and provide employment opportunities for 15,500 people. Cushman & Wakefield will assist in the development and promotion of mediacity in the UK.

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*The art of retail*

# Selling at half-price proves good business for Value Retail

**'M**oments of dislocation are where opportunities are created,' says Scott Malkin. 'In 1992, when we first started Value Retail, people were stunned and in retreat. The market was crushed. The bad news was that we created a business when people were negative but the good news was that very negativity worked for us. It created a passivity that only increased our focus. People were not just sitting on their hands and not competing with us: people were just sitting on their hands, period. We moved when the market was too distracted to notice what we were doing.'

Fifteen years have passed since that date and now Malkin, the CEO of Value Retail, runs one of the world's most successful chains of outlet villages, with nine locations scattered throughout Western Europe. Working from the company's modest offices, just a short walk away from London's Berkeley Square, the 48 year old graduate of Harvard business and law schools spoke to VGM Real Estate about his early days and first successes in retail development, and what the future holds for his company.

'Retail development has been my passion since the beginning of my career', says Malkin. 'In 1988 and 1989, before the formation of Value Retail, we brought European investors to Rodeo Drive in Beverly Hills for a luxury retail project that involved a lot of inventive thinking. Four friends I knew in New York and I formed a company which we called SD Malkin Properties. Up until that point, we had all worked on projects that were evolving successfully but we had not been the primary actors. In this 13,000 m<sup>2</sup> project we involved brands such as Tiffany and Dior in a development that was not only unusual in its design and concentration, but also in its focus on the international tourist as its target shopper. That was our first real success and we moved on from there to developments in Europe. We had other projects going at the time but the Rodeo Drive scheme gave us a calling card.'

That calling card gave the partners the ability to form Value Retail, which is partially funded with investments from Hammerson, Simon Property Group and Deutsche Bank, who together hold 25 percent of the company. Malkin and his other partners control the remainder. Their first European project was Bicester Village, outside of London, which was opened in 1995. Value Retail's key lenders across Europe include SNS Property Finance and The Royal Bank of Scotland.

**Licence**

'Our relationship goes back at least six years,' says Michiel van Loon, the Director of Northern Europe at SNS Property Finance. 'We were involved in the financing of Ingolstadt Village, Maasmechelen Village and La Vallée Village outside of Paris. We have come to know the company as a very ambi-

**Outlet shopping villages were once a novelty in Europe although some analysts think the novelty just might be wearing off as the pool of potential locations is drying up. One company, Value Retail, got in the business early and has turned bargain hunting into a very profitable business.**

tious and professional retail organisation. They not only look at the spending power coming from the pool of regional residents, but also the tourist flows, which assures that they are well placed to attract the most high value consumers. The power of the concept is not just the location: it's also the mix of high-end products, the attractive architecture and both the connection between and the engagement of customers, brands and the people from Value Retail themselves.'

'For Bicester Village we bought a greenfield site and developed a unique vernacular environment,' says Malkin. 'The architecture of all the Value Retail sites closely reflects local tradition. You have to remember that all outlet shopping projects are built completely on spec. You do your due diligence to minimise risk but we added another factor to our model by writing a licence instead of a lease agreement, which closely resembles a department store royalty arrangement. That gives us more flexible terms of occupancy. Each individual unit is approximately 200 m<sup>2</sup>, with the largest not exceeding

600 m<sup>2</sup>, and tenants pay a royalty in lieu of rent, which is a percentage of VAT exclusive sales. We offer a rolling licence with a time commitment as short as ten months. We retain the right of cancellation on short notice so we can actively re-merchandise and reinvent the brand mix year in and year out. It's a good business model but one that was unprecedented and therefore difficult for the market to accept initially and value.'

**Double digit growth**

'Sales growth, performance and sales densities have been consistent in both northern and southern Europe with the most established villages achieving average sales per square metre on the gross external area, excluding VAT, in excess of €13,000 per m<sup>2</sup> per annum, a level that rivals any sales densities achieved at full price locations in Europe,' says Malkin. 'The younger projects are tracking the same performance evolution and the average sales densities achieved for the villages collectively in 2007 will be approximately €8,000 per m<sup>2</sup>. Annual

growth in sales for the portfolio has averaged in the double digits for the last twelve years.'

'Value Retail manages to provide a product that delights the consumer and consistently delivers over time', says Ken Gunn, Director of the CACI Property Location and Planning Consultancy and one of the leading experts in outlet centres in Europe. 'Value Retail always stands out head and shoulders above the rest of the competition because they deliver what the customer is looking for. They think of property in an operational sense.' 'The beauty about outlet centres is that many people believe they are places they go for fun', adds Gunn. 'They are leisure destinations. People believe they are getting something not available on the high street. Outlet is about leisure rather than retail. It's about the thrill and excitement of finding a bargain. As a result, they draw people over a much wider catchment area. People who travel to Value Retail sites don't actually think they are shopping. They think they are on a day out. What happens is that people spend more as a result and come back more satisfied.'

**Retail driven**

'The outlet business generally is retail driven', says Chris Warren, a leading outlet analyst at Cushman and Wakefield in London. 'These schemes are real estate by definition, but they are very different than any other type of retail real estate. Success is driven by the management of the scheme. Sites need to be bought and funding needs to be done but once they become ongoing operations they are very different than anything else, except maybe a department store. Tenants have very short leases and the landlord has the ability to break leases and bring in new brands at any point. Nevertheless, you can value them as property investments because, whilst there are short leases, in a more mature market like the UK, where there are 40 schemes going, some of which have been trading for over ten years, there is a demonstrable rent, albeit based on base rents or percentage of turnover. You can value them as a property because they had an original cost of construction and a somewhat quirky lease structure, but there is a consistently increasing rental income. They are now much more recognised and much more institutionally acceptable now than they were eight to ten years ago.' 'Value Retail has created an extremely successful model in Europe,' adds Warren. 'There would be any number of people interested in buying the company. They attract a better level of tenants and customers, which gives them the ability to charge royalties on sales that are probably in the 10 percent to 13 percent range.'

There are an estimated fifty outlet shopping centres planned in Europe, but some analysts think that many of the prime sites have been taken by companies like Value Retail. The in-

teresting thing with Value Retail is where they go next', says Ken Gunn of CACI. 'It is increasingly difficult to get sites in the right place and, in my view, some countries are almost full.'

**Focus**

'We probably will build one or two more projects, but we won't be building ten more projects', says Malkin, in contrast. 'Our focus is on the high end domestic shoppers and international tourists. Location is a relative concept. What seems convenient in the Netherlands might seem impossibly arduous in Ireland. Sites can't be too remote. There are also densely populated areas with people that don't spend a lot of money. You also have to know the psychology of the shopper. Maasmechelen Village in Belgium attracts a lot of high spending Dutch. The psychology of the Dutch fashion outlet shopper is that she is ambitious and spends more

*We moved when the market was too distracted to notice what we were doing*

comfortably in Maasmechelen Village than she would spend in Amsterdam. There is a tradition of conservatism in consumption that can be broken if the shopper is transported to a different environment.'

'Our philosophy is that we are the tortoise, not the hare', adds Malkin. 'We slowly lump along and find out what the answers are. We have been blessed by good luck and hard work. The individual markets in which we operate are very different, but in each one we attract an enormous amount of business from affluent tourists. In Barcelona almost 50 percent of the customers are non-Spanish and that tourism figure is 30 percent in Paris. A recent survey found that Bicester Village is the number one destination outside of London for Japanese tourists visiting the UK.'

'Value Retail is the best outlet operator by far and they have fantastic relationships with the brands that go in their centres', says Chris Warren of Cushman and Wakefield. 'They understand the customer and retailers and can put them together in a very virtuous relationship and they make a lot of money as a result. They are head and shoulders above what the others offer and they haven't opened too many sites. Value Retail did not over develop. With their brand strength they created a blend of uniqueness and draw which equals success.'



Scott Malkin: 'We are the tortoise, not the hare.'