

UNTAPPED MARKET

Value Retail to Open Luxe Outlets in China

By DAVID MOIN

CHIC OUTLET SHOPPING is the next golden opportunity in China.

Value Retail, operator of nine high-end outlet "villages" in Europe, will break ground in March on a 600,000-square-foot outlet center in Suzhou, 50 miles west of Shanghai.

To be called Suzhou Village, the project is intended to be the first in a "portfolio" of upscale Value Retail outlet villages operating in China, and is modeled after the company's successful Bicester Village, 65 miles northwest of London, which attracts a large number of Chinese tourists.

"We will mimic what we do in Europe — focusing on high-end luxury and fashion brands," Scott D. Malkin, founder and chairman of the London-based Value Retail plc, said in an exclusive interview.

"The villages will be based in tier-one cities, in the suburbs of Shanghai, Beijing and Hong Kong," Malkin said, adding that Suzhou Village will open in phases beginning in summer 2013. Phase one will have 125 stores occupying 250,000 square feet. Ultimately, 300 stores are seen, each with 1,000 to 5,000 square feet.

"It's not going to be a mall," Malkin said. "It will be more of shopping promenade similar to what's seen in Europe. We will seek to draw tourists and residents from cities."

China already has outlet malls, but they're generally built by local developers and lack any flair or sophistication. "They're filled more with local products, mass market products, and local customers, without any tourist or international appeal. They're not tourism hubs, and not up to the standards of a Woodbury Common or Bicester Village," Malkin said.

One exception is Florentia Village-Jingjin Designer Outlets, which opened in July midway between Beijing and Tianjin, just a 17-minute train ride from Beijing, and replicates a 16th-century Italian town. The center, a partnership between Italy's Fingen Group and the Waitex Group in the U.S., houses outlets from more than three dozen designer and upscale brands, including Prada, Giorgio Armani, Versace,

Salvatore Ferragamo, Fendi, Bulgari and Coach, but hopes to have 100 brands. Prices are 40 to 70 percent off the full retail price.

Suzhou Village will offer a minimum of 35 percent off, and expects to have many of the same high-end brands and designer labels that operate inside Value Retail's properties in Europe, such as Prada, Michael Kors, Coach, Staff International, Ralph Lauren, Sergio Rossi, Belstaff, Missoni, Ugg, Pink, Yves Saint Laurent, Tod's, Burberry, Armani and Roberto Cavalli. Malkin has begun talking to many of the brands about Suzhou Village, though he said it was premature to reveal any China tenants.

"We are moving forward on this project because the brands we work with already have asked us to go to China," Malkin said.

Across Value Retail's outlet villages, women's fashion is the backbone of the offering, supported by denim, accessories, handbags, men's and children's wear, home goods and food. That's the merchandising formula set for China as well. "The big issue in China is authenticity," Malkin said. "There is counterfeit merchandise being sold straight up. The Chinese see more than their fair share. But we have a policy of only selling authentic merchandise, meaning merchandise sold within the full-price collections," not secondary lines specifically manufactured for outlets.

"Brands can't take the risk of having any doubt about their product. We will give the



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Chinese the real offer," he added.

The project couldn't be timed much better.

For one, outlet shopping is hot, and in the past year, many retailers, including Saks Fifth Avenue, Neiman Marcus and Bloomingdale's have accelerated growth of their outlet divisions in the U.S. Just last week, eBay launched its own outlet Web site.

Secondly, the Chinese are getting richer, more tuned into global fashion and inclined to view luxury goods as status symbols. According to the Hurun Report, a monthly magazine that publishes a "rich list" ranking the wealthiest individuals in China, about 65 percent of consumers equate luxury brands with success. Social statements are often made using luxury products, which are increasingly seen as status symbols, and gift-giving is central to Chinese culture. About 50 percent of luxury consumption in China, estimated at \$4.75 billion in 2009, is from companies giving gifts to clients. Hurun has also reported that China has the second-largest number of billionaires in the world, with 130, including

94 under the age of 40.

The white-collar "aspirational" shopper, who is prone to shopping outlets for better labels, is the fastest-growing group in China, according to China Market Research. They're typically women in their 20s, earning no more than \$400 to \$500 a month, yet will save to buy a Louis Vuitton bag. According to the Boston Consulting Group, 48 million households in China



Bicester Village is the template for Value Retail's China strategy.

were classified in 2010 as middle class to affluent, and by 2020, 134 million households are expected to be classified as such — an approximate threefold increase.

The demographics and economic growth in the Shanghai-Suzhou region are particularly ripe to support an elevated outlet experience. Forty million people live within a one-hour drive of Suzhou and more than 80 million within three hours' drive of the city. The area has the highest population density, economic activity and concentration of wealth in China and is a strong draw for national and international tourism. Suzhou is known for its historic temples, gardens and monasteries and for being the ancestral home of well-known architect I.M. Pei.

Suzhou's economy grew by 18 percent a year from 2005 through 2010, and is the fourth-largest city-economy in China after Shanghai, Beijing and Guangzhou. However, despite the demographics, the outlet sector retains an underdeveloped, Third World character, according to those familiar with the landscape.

"We see quite a number of very impressive high-end shopping malls selling recognized designer and brand names, but the outlet piece just hasn't really emerged in the Chinese market," said Christopher Ainsley, president and chief executive officer of ShopperTrak, a firm that tracks retail traffic in stores around the world, including China.

According to Hu Weibo, a retail industry

analyst with CITIC Securities in Beijing, China has about 200 self-described outlet malls, though only about 10 percent meet Western standards of the format, based on their offerings and price structure.

Even with all the favorable retail trends and demographics, Malkin can't do it alone in China. A "major" Chinese real estate corporation has been partnering on the project and has helped Value Retail secure the

80 million

Number of people who live within a three-hour drive of Suzhou.

property in Suzhou and circumvent the red tape foreign retailers and developers typically encounter when attempting to enter China. Malkin declined to name the Chinese partner.

In addition, Marvin Traub Associates, which has a five-year association with Value Retail, is consulting on the strategy. Traub has been helping to elevate the product offering and put the focus on luxury, fashion and international tourist sites, which Malkin suggested shouldn't be too difficult.

"Brands view Value Retail as partners, not necessarily landlords," Traub said. "They pay a percentage of sales, and are not tied to any fixed rental."

Traub also said Value Retail employs general merchandise managers on its sites to help brands try to maximize revenues. "They get the outlets to develop relationships with customers and work with the brands to generate traffic," Traub said. Value Retail's centers, Traub said, are marked by distinctive architecture, hospitality and wide streets. "If it feels like a dumping ground for inferior product, it won't work. There are a lot of outlets in China, but the Chinese want higher standards, an international experience."

Aside from sensing that brands are keen to open outlets in China, Malkin acknowledged that his China strategy is in part based on limited opportunities left for new projects around major European cities. There are nine Value Retail outlet villages in Europe, including La Vallée Village located in Disneyland Paris, and Fidenza Village, close to Parma, Italy.

"We are getting good growth in the projects we've got," Malkin said. He said Value Retail will reach \$2.18 billion in sales this year, up from \$1.82 billion in 2010. The outlet villages generated \$1,250 in sales per square foot last year, led by Bicester Village, Value Retail's first project opened in 1995, which soared to \$2,240. Very few malls or stores in the world yield comparable sales per square foot, though one would be Bal Harbour Shops, the luxury center in Miami that has reported 2011 sales tracking at \$2,306 a square foot.

Malkin is confident the Chinese will shop his Suzhou Village concept, considering the nature of the traffic he sees in Europe. "Seventy-five percent of those shopping Bicester Village are tourists, and of the tourists, one third are Chinese," he said.

So with Value Retail hard-pressed to expand in Europe, it's time to participate in China's Westernization. "Now, the market is at an early stage in terms of what's been built, and the quality of what's been built," Malkin added. "But what has happened in Europe and the U.S. will happen in China in an accelerated time period. We will do five projects in the next three to five years."

And that's not just developer talk, Malkin assured, adding that the Suzhou site is paid for and will be ready for construction in March. "The bigger challenge has always been after the project is built and executing at high levels of growth. In our 15 years of business, we've been up double digits every year. In the end, we are retailers," he said.

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VALUE RETAIL