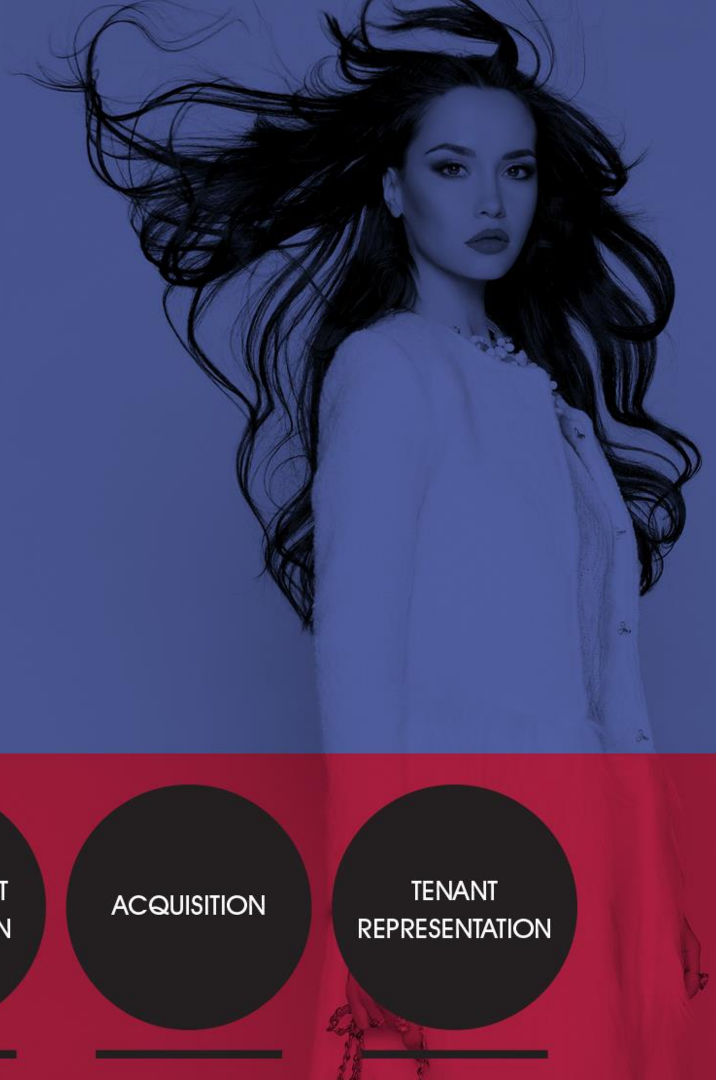
TORG
The Outlet Resource Group

OUTLET INDUSTRY UPDATE

August, 2018



LEASING

MARKETING

DEVELOPMENT CONSULTATION

ACQUISITION

TENANT REPRESENTATION

RETAIL DOLDRUMS IN THE U.S.

Perception:	**Pain points for U.S. retail include:**
"E-commerce has killed retail"	✓ E-commerce "creep"
"Consumers are all shopping online"	✓ Walmart
FALSE!	✓ Wall Street, especially debt
✓ Brick and mortar still accounts for 87.3% of sales	✓ Saturation
	✓ Changing demographic and spending patterns

RETAIL DOLDRUMS IN THE U.S.

Strategies include:

- ✓ Legislation/Economic taxation of online
- ✓ Experiential retail
- ✓ Elimination of duplicative, poor retail
- ✓ Brand expansion
- ✓ Curated concepts like Nordstrom Local and Nike's HyperLive
- ✓ E-commerce retailers entering brick and mortar

ABOUT THE OUTLET CHANNEL

ADVANTAGES OF THE OUTLET INDUSTRY:

- Low occupancy and operational costs for retailers
- Outlets invite consumers into brands, creating brand loyalty
- Brands present full depth and breadth of range
- Discounts all year for consumers
- Economic challenges result in more attentive consumers looking for good prices
- The social classes which ascended between 2009-2013 will continue to buy fashion goods especially in outlet centers

GLOBAL OUTLET SECTOR NUMBERS

- 434 outlet centers worldwide
- 12.5 million sqm – total GLA out outlet centers
- 30,240 sqm – average age of projects
- 13 years – average age of projects
- Peak year: 115 projects totaling 3.8 million sqm in development by 2015 in 21 countries
- 164 outlet center owner business groups

STATE OF THE OUTLET INDUSTRY

	United States	Canada	Mexico & Puerto Rico
Open:	211	12	4
Total GLA:	83,119,379	3,225,817	1,671,042
Average GLA:	393,930	268,818	417,760
Average Age:	16 years	10 years	15 years

STATE OF THE OUTLET INDUSTRY- Latin America

	Brazil	Colombia	Panama
Open:	11	4	N/A
Under Construction:	8	N/A	N/A
Retrofit:	1	N/A	1

OUTLETS IN AMERICAS

Strengths:

- Outlet traffic and sales in North American centers have rebounded from 2016 slowdown
- Outlet segment continues to have disproportionate visitation vs. traditional retail
- Traffic and sales in Brazilian centers have continued to accelerate
- New investors are entering the segment worldwide

Weaknesses:

- Few new projects in the pipeline in North America
- Few authentic outlet centers outside of North America creates vulnerability
- Low consumer awareness of outlet benefits due to lack of exposure
- Complications inherent to licensee-dominated markets

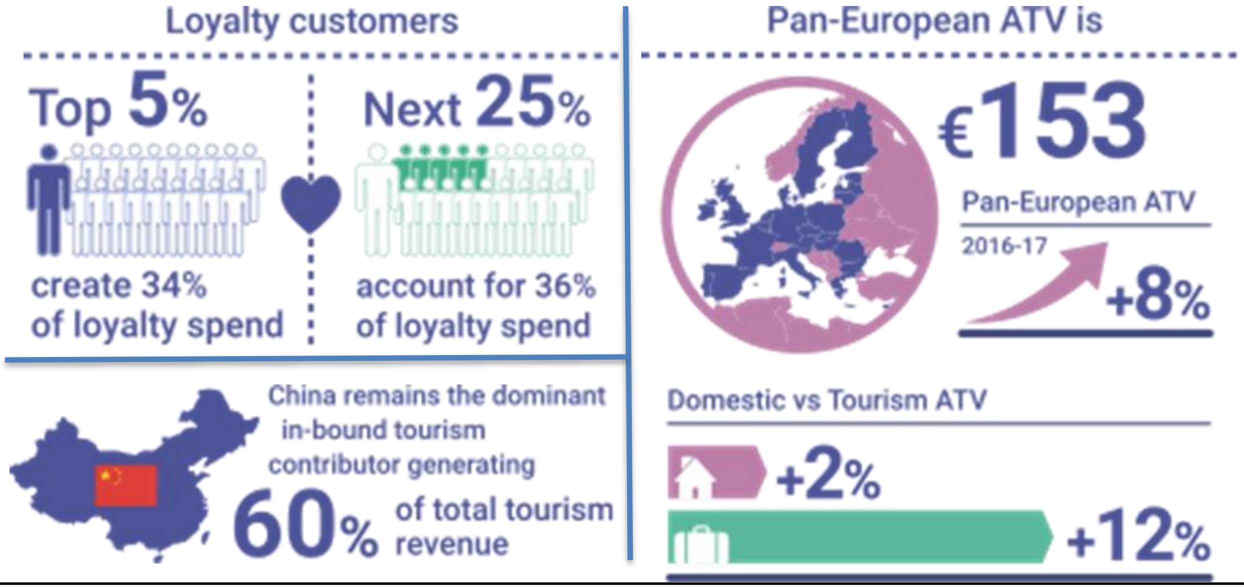
EUROPEAN OUTLETS SUMMARY

- The European Outlet Center industry continues to deliver impressive growth
- Occupier brands continue to fuel expansion and growth
- Leading operators continue to increase their share of total sales
- Development activity is focused in Western and Central Europe
- There are signs of capacity being reached in Northern Europe and Southern Europe. Future success here will increasingly be driven by "point of difference"
- Remaining opportunities for new development still offer strong prospects; however, they require:
    - A mix of cultural, leisure and retail activities which appeal to residents, tourists and day visitors
    - Outstanding design which integrates activities within a compelling destination for brands and visitors
    - Operators capable of managing the entire "day out" package, not just shopping
- Substantial opportunities also exist for investors to improve established assets
- One size most definitely does not fit all in the outlet industry

Europe continues to boom!

COUNTRY	LOCATION	NAME	OPERATOR	GLA (M2)
United Kingdom	London	Icon Designer Outlet	Anschutz Entertainment Group	20,000
Czech Republic	Prague	Prague The Style Outlets	Neinver	20,000
France	Lyon	The Village, Villefontaine	Freeport Retail	20,000
Spain	Malaga	McArthurGlen Malaga	McArthurGlen	17,000
France	Paris	City Outlets Paris	ROS Retail Outlet Shopping	15,000
Croatia	Zagreb	Designer Outlet Croatia	ROS Retail Outlet Shopping	15,000
Spain	Zaragoza	Torre Village Outlet	ROS Retail Outlet Shopping	15,000
Latvia	Riga	Via Jurmala Designer Outlet	SIA	13,000
Finland	Vaalimaa	Zsar Outlet Village	East Finland Real Estate	12,000
Germany	Wuppertal	City Outlet Wuppertal	ROS Retail Outlet Shopping	10,000
France	La Cavalerie	Viaduc Village	The Outlet Resource Group	7,500
Italy	Sanremo	The Mall Sanremo	Kering Group	6,220

THE CHANGING FACE OF OUTLETS



(Source: *the Coniq Report*)

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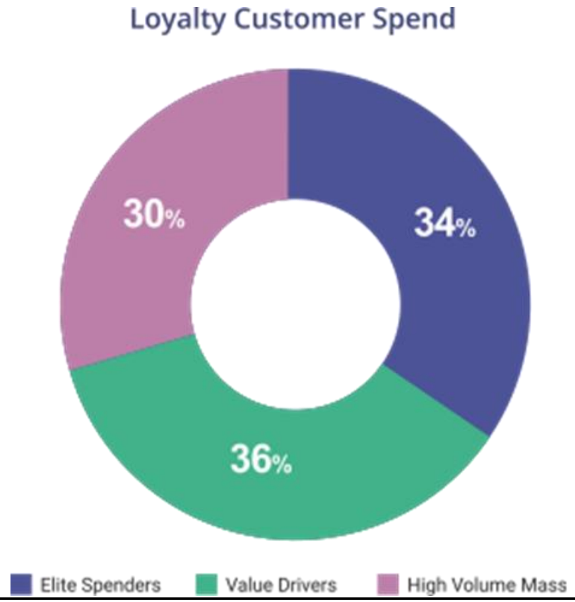
LOYALTY CUSTOMER SPEND



- **Elite Spenders** – the top 5% of consumers
- **Value Drivers** – the next 25%
- **High Volume Mass** – the remainder

Elite Spenders account for an incredible 34% of all loyalty spend and the ***Value Drivers*** account for another 36% - in short, the top 30% of outlet loyalty customers account for an incredible 70% of sales

(Source: the Coniq Report)

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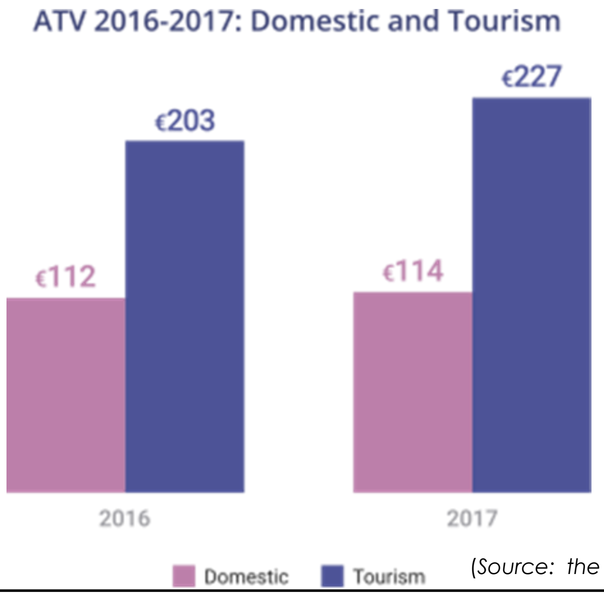
AVERAGE TRANSACTION VALUE

Measures that a WINNING outlet must regularly review should include:

- ❑ The marketing investment vs return by International customer
- ❑ The Performance by each tourism partner tasked to deliver International customers
- ❑ How service models need to vary to meet these customers' needs
- ❑ The loyalty-spend balance / ROI between domestic and tourism markets

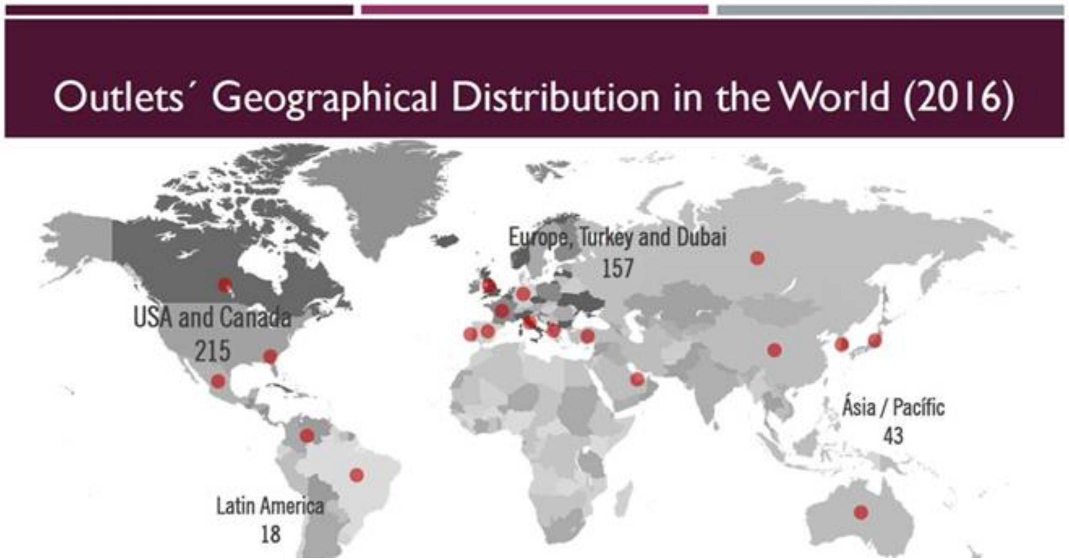


(Source: the Coniq Report)

ASIA OUTLETS

Outlets in Asia = 43

Japan = 9
China =
Guam = 1
Malaysia = 1



OUTLETS AS A "GATEWAY" TO A BRAND

Kellogg School of Northwestern University studied 100,000 customers over a 25 month period

Does opening an outlet store negatively impact a brand?

- ✓ **Only 2% of shoppers** were "outlet only" shoppers
- ✓ Customers who started shopping in the outlet channel increased retail store visits from 3.5 to 5 times per year
- ✓ Ove a year, customers spent an additional $155 USD at retails stores, 34% over what they previously spent
- ✓ The outlet channel is a gateway to brands and enhances the sales overall

ADVANTAGES OF THE OUTLET INDUSTRY

- Retailers can produce lines and specific products for outlets
- If sales are falling in multi-brand channels, open stores in strategic outlets
- Large sales volumes with specific production for outlets, as well as overstocks
- Outlets attract consumers from long distances because they are “destinations”

EMERGING TRENDS IN OUTLET RETAIL

- Millennials are the most frequent shoppers of outlet centers in the US and are changing the nature of the industry
- Millennials are leading changes in retailer and center location, design and merchandising strategies
- Customer experience is a top driver for location selection, design, tenant and merchandise mix
- Urban and mixed-use projects with outlets as a primary retail component
- Repositioning of traditional malls into outlet/hybrid destinations
- Next generation marketing tools focused on customer acquisition and retention

Thank You

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