

## Financing a designer outlet centre Miramas, France € 87 million

Cooperation with an experienced FOC operator  
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### Factory Outlet Centre asset class

pbb Deutsche Pfandbriefbank ("pbb") is a leading European specialist bank for real estate finance. The Bank provides financings for the entire range of retail properties, leveraging specific know-how concerning the financing of factory outlet centres (FOCs). FOCs provide retail space for multiple manufacturers of various – usually high-quality – brands, offering their products at discounted prices. The number of FOCs across Europe has increased significantly over recent years; increasingly, they are regarded as a separate property asset class.

The Miramas outlet centre, located in Southern France, is a case in point for a state-of-the-art FOC concept. In July 2015, pbb provided €87 million in financing for this outlet centre to operator McArthurGlen: the client will use the funds to finance construction of the 24,500 sq m outlet centre at the heart of the 'Bouches-du-Rhone' region, very close to the Marseille urban area in the south of France. The retail centre will open in 2017; designed in the style of a Provençal village, it will offer floor-space for a total of 120 stores, along with seven restaurants and cafes.

pbb has been the banking partner for some other well-known FOCs in Europe. For instance, the Bank financed La Roca Village in Barcelona; it has provided loans for Value Retail, a leading developer and operator of luxury outlet centres in Europe.

### Increasing pressure to change

The retail sector is undergoing change, and is facing additional major adjustments. The process of change is driven in particular by changes in customer preferences, and the advance in digitisation.

Prices are under pressure in numerous sectors, with trade margins coming under pressure. Some segments respond to this

pressure by cutting prices and many food discounters – as well as various fashion discounters – have come up with very successful strategies to cope with the situation.

### Diversifying distribution channels

Operators are also responding to pressure by broadening their distribution channels: new sales opportunities are being sought by expanding locations, the range of products on offer, and – particularly – through the opportunities provided by technical progress, especially increasing digitisation.

As a result, established inner-city retail locations, shopping centres and specialty markets are being supplemented by rapidly growing online distribution. FOCs also reflect the increasing diversification of distribution channels.

### Skepticism recedes - Changing market environment

FOCs first appeared in the US in the 1980s, as a way to dispose of commissioned goods returned by retailers, faulty merchandise, or surplus items, in factory-owned stores. Single stores then turned into retail centres, which quickly evolved into a successful independent sales channels.

Whilst FOCs were booming in the US during the 1990s and were also successful in the UK, operators in most other countries demurred, expressing considerable reservation about being seen as competitors to inner-city retail stores. It was feared that FOCs would draw potential customers from these inner-city emporiums, with a corresponding drag on their attractiveness.

Such scruples have meanwhile disappeared: experience has now shown that prospering inner-city locations and successful FOCs are no contradiction at all. In fact, many municipalities are now actively seeking such centres.

### Special aspects regarding the financing

Financing retail properties – and especially FOCs – requires deep market knowledge, due to various special characteristics,

given the peculiar cost structure for the property, as well as its high dependency upon the operator.

On the one hand, low construction cost – usually combined with comparatively low costs for acquiring land in suitable locations – lead to total investment costs which appear modest in comparison with the turnover to be achieved. On the other hand, this is countered by often very drawn-out planning phases, and many uncertainty factors to be taken into consideration – including all-out rejection of the investment project. Moreover, such uncertainty factors often reflect additional infrastructure development costs required in order to ensure that the centre is easily accessible.

The operator also has a significant influence upon the commercial success of an FOC: depending on the operator, FOC revenues may range between €1,500 and more than €10,000 per square metre – which is, in turn, reflected in rents achievable.

A well-balanced tenant mix is thus essential in order to attract potential customers to the FOC. Those concepts with proven track records have successfully brought higher-category providers together, not only generating younger and more diverse visitors who aspire to the luxury sector, but also upwardly mobile providers targeting that sector.

Operators need a stable network with such providers: to attract customers (and to generate high revenues), you need to dangle the prospect of being able to purchase high-quality branded goods at attractive prices. As a consequence, analysing the operating company and its sales concept is crucially important for financing partners.

### Know-how bundled in pbb's team of retail experts

As a banking partner, pbb provides the requisite know-how for its European core markets: the Bank's seasoned sales experts at its offices in Munich, Frankfurt/Eschborn, Paris, London and Madrid are supported by a team of retail experts who are on top of current issues and trends in the retail markets.

### Contact details for pbb Deutsche Pfandbriefbank

Real Estate Finance – Germany

Gerhard Meitinger

[gerhard.meitinger@pfandbriefbank.com](mailto:gerhard.meitinger@pfandbriefbank.com)

Real Estate Finance – Continental Europe West

Norbert Müller

[norbert.mueller@pfandbriefbank.com](mailto:norbert.mueller@pfandbriefbank.com)

Real Estate Finance – International Clients, UK & CEE

Charles Balch

[charles.balch@pfandbriefbank.com](mailto:charles.balch@pfandbriefbank.com)

Credit Markets – Real Estate Finance and

Public Investment Finance

Andreas Wuermeling

[andreas.wuermeling@pfandbriefbank.com](mailto:andreas.wuermeling@pfandbriefbank.com)

Deutsche Pfandbriefbank AG

Freisinger Straße 5

85716 Unterschleißheim

[www.pfandbriefbank.com](http://www.pfandbriefbank.com)