

Outlet Malls Springing Up in Moscow

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The Belaya Dacha outlet center, whose first phase is scheduled to open in July, is already 95 percent leased out.

Russians are not ones to pass by a good sale — even if the conditions for such discount shopping require nearly inhuman resilience and patience.

Vera Setskaya, partner in the international property adviser GVA Sawyer, visited one self-titled outlet in the country and equated shopping there to rummaging in a haystack.

“It’s a pile of hay,” Setskaya said at the Shopping Malls of Russia conference Tuesday. “Any number of items are brought there, and any retailers are taken in just to fill up the space.”

An authentic outlet center needs to be selective about its merchants and target audiences, she said.

Developers and investors are eager to open such Western-style outlets in Russia, but retailers may be hard to get on board.

There are currently no complexes in the country with multiple outlets in one location, but three are under construction in Moscow.

The first phase of Outlet Village Belaya Dacha will open in July 2012 and is already 95 percent leased out. Levi's, Calvin Klein Jeans, Nike and Lacoste are among the brands that have taken the space. Vnukovo Outlet Village is expected to open in August and Fashion House Outlet Center in November.

Outlet centers sell products that are overstocked, slightly damaged, from last season or made specifically for outlets, at discounts of 30 to 70 percent off regular prices.

The outlets are traditionally located in rural or tourist locations. A strip configuration is most common, although some are enclosed malls, and others can be arranged in a village cluster, said Charles Slater, head of retail services at Cushman & Wakefield.

Developers argue that outlets offer a profitable retail alternative in a market that is oversaturated with traditional shopping malls.

They enjoyed a 100 percent success rate for their mall projects five years ago because there was virtually no competition from rival developers and retailers weren't picky about their locations, said Tatyana Klyuchinskaya, regional director of real estate consulting firm Colliers International. But since the number of traditional malls has spiked — even quadrupling in Ufa — outlet developments have started to look more lucrative.

"The typical Russian consumer is very much brand-led and value conscious — a perfect combination for the success of outlet centers in Russia," Slater said.

But retailers and local distributors of foreign brands are still hard to persuade to open discount locations. There may be a conflict between the brand's head office and its local distributors if the former proposes opening an outlet close to a regular retail point.

"[The local representative] is the only way for the brand to enable the supply and sale of its products in this market," said Waldemar Weiss, vice president of real estate consulting company NAI Becar. "The brand is afraid of losing the market. He can lose everything."

Although foreign brands are considered key to the success of an outlet center, there are still no more than 10 new brands coming to Russia each year.

"To be presented in an outlet, a brand needs to have X number of regular stores in the country," Setskaya said. "Because our retail segment is still not very developed, many names don't exist, so even if they wish to, they can't open an outlet center."

Setskaya remains optimistic that the segment will develop quickly once the right retailers are enlisted.

Slater said that Moscow can support four to five outlets, each geared at 3 million to 4 million customers. St. Petersburg and the regions are also on the radar for developers, which is good news for discount shoppers.

"Not very rich people will go to outlets for the discounts because there they can buy quality

products for lower prices. But very rich people will also go to outlets because nobody will pass up an opportunity to buy something with a discount,” Setskaya said.

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