

Outlets on center stage at hope-filled RECon

Despite the newfound attention and respect, outlet retailing stays on a cautious course.

By **LINDA HUMPHERS**
 Editor in Chief

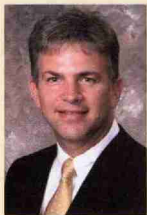
If you're an outlet executive who was among the 32,000 attendees at ICSC's RECon, held in Las Vegas in May, you must have felt like the belle of the ball, the king of the mountain, the little engine that could... Well, you get the idea.

Thanks to the steady, stellar performance of outlet chains and outlet centers, the sector seemed to be on everyone's lips at the four-day convention. The mood all over the trade halls was optimistic and hopeful, with a newfound willingness to embrace the outlet distribution channel.

During the outlet educational session held on Sunday, May 22, moderator **David Ober** told the jam-packed room that outlet centers outperform other retail sectors to the tune of \$100 psf or better.

"The reason is that we are very consistent, with value every day, and the consumer knows it," said Ober, who is the president of **Global Outlet Management**. "In November ICSC began including outlet centers in its customer surveys. We have discovered that 12 million to 15 million people shop outlet centers every week. Each week, 21.5 percent of shoppers go to enclosed malls, 8.1 percent go to outlets and 4.9 percent go to both malls and outlets."

Ober, who has been in the industry for two decades, said, "Everybody wants to get into outlets.



Ober

The REITs think outlet retailing will be their Band-Aid. I get really mad when I hear someone say, 'I have a failed project or a failed site that I want to convert to outlet.'"

The rest of the panel had similar sentiments. "There's usually a reason the center failed to begin with," said **Jeffrey A. Ruback**, director of real estate for **Under Armour Retail**.



Ruback

"Converting a center is very tough and

it rarely happens," said **Jamie Bourbeau**, VP/director of leasing for outlet developer **AWE Talisman**. An exception she said, is **Vornado Realty Trust's Outlets at Bergen Town Center** in Paramus, N.J., which quietly converted to outlet two years ago, "Bergen works because of population and density."



Bourbeau

Lillian Thrasher, real estate manager for **Phillips-Van Heusen**, said the 750-plus outlet stores she oversees "aren't in any hybrid centers except Bergen because of sensitivity." Ruback said, "Ditto on that," for **Under Armour's 66 outlets**, which tenant only outlet centers.



Thrasher

"Outlets really are different," Ober said. "In marketing alone, outlet centers spend four to five times more than regional malls. Our discounts are higher than most discount stores. If anything, outlets need the best real estate, not distressed real estate. Just adding the outlet name doesn't work."

But even outlet-center developers are trying to move their projects closer to major metro areas, a concept that has trouble gaining traction with many retailers because of their department store accounts.

"It's loosening up," said Bourbeau, who's leasing the planned **Fashion Outlets of Chicago**, which is within 10 miles of three regional malls. "Retailers with strong wholesale accounts are the most sensitive, but they're definitely moving closer. When the boundary used to be 30 to 50 miles from a department store, we're now getting closer."

Thrasher and Ruback concurred that they both protect their wholesale accounts and turn down projects that are too close. "Specialty retailers are our greatest partners and the majority of our business," Ruback said. "No need to jeopardize that, but sometimes the outlet was there first."

Another factor in retail sensitivity is the site itself, Bourbeau said. "It's a mix of metrics. You have to think of the population and the amount of tourism."

Ober added, "The outlet business is all about balance and brand management."

Part of brand management, the panel agreed, is having enough product in the outlet stores, and that leads to MFOs, or made-for-outlet goods.

"We manufacture for our outlets," Ruback said of **Under Armour**. "If you want to run a chain on overruns, you'll have a lot of triple-XLs in hot pink. That's not a good way to run a chain of apparel stores."

Bourbeau said MFO really fueled growth at **Polo Ralph Lauren**. "It's a money-making machine," said the former Polo leasing exec. "The consumer isn't counting stitches."

Thrasher said the P-VH outlets, which operate under the **Bass Shoe, Calvin Klein, Izod, Tommy Hilfiger and Van Heusen** concepts, have both overruns and MFOs in their outlet-chain inventory. "Tommy has MFO; otherwise, customers can only buy Tommy at Macy's."

The idea of losing full-price customers to outlets wasn't a concern to the panelists. "Most of our stores are outlet, so crossover shopping isn't a big issue," Ruback said. "Outlets give us another 50 percent of shoppers we can go after."

"Crossover is very small in luxury brands," Bourbeau said, "but a lot of brands first find customers through the outlets. The outlet shopper is so aspirational. She goes to a **Gucci or Prada** outlet and often moves up to full-price."

But retailers are largely cautious about opening more stores. "The last thing we want to do is saturate," Ruback said, adding that even though there are 40 to 50 planned centers in the outlet pipeline, he doesn't see even 10 to 20 opening a year. "Maybe a half dozen."

Thrasher and Ruback said their companies plan to expand into Canada, but overseas expansion in Europe or China isn't in their companies' plans.

Also heard at RECon:

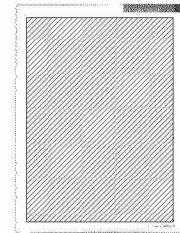
Gary Skoien, CEO of **Horizon Group Properties**, was like a proud father-to-be – the developer's 320,000-sf **Outlet Shoppes at Oklahoma City**, which opens Aug. 4,

was 96 percent leased as of May 1. On new planned projects, **Horizon** is ready to roll in Atlanta now that a new Interstate exit has been completed. That project, **Outlet Shoppes at Atlanta in Woodstock, Ga.**, west of Atlanta,



Skoien

is 50 percent committed, he said. **Horizon** was also marketing the 350,000-sf **Outlet Shoppes at Louisville (Ky.)**, at Interstate 64, exit 28.



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Janelle Stevenson, corporate communications manager of Federal Realty, said the developer is planning a 332,000-sf outlet component – **Assembly Row** – for its Assembly Square project in Somerville, Mass. The population within three miles is almost 420,000 with an AHI of \$86,994. Tenants already on-site include TJ Maxx, Bed, Bath & Beyond, A.C. Moore, Staples, Kmart, The Christmas Tree Shops and Sports Authority.

Janet Grady, president of the Prism Company, has been working with **Boise Outlets** in Idaho. The former Quality Center project, which opened in 1993, is 57 percent occupied, she said, adding that building occupancy shouldn't be difficult.



Grady

"It's the only outlet center in Idaho, which has more than 1.5 million people," Grady said. The center has enough property to grow to 233,000 sf from its current 133,000 sf. Grady was also talking up **Centralia Outlets**, where **Children's Place** and **Christopher and Banks** were to open in July and **Wilson's** in August.

Dan Kelly, president of The Outlet Company, with offices in Hong Kong and Taiwan, told VRN/IOJ that his **Mega Mills** project in the Qingpu District of Shanghai, which will open in early 2012, is across the street from the most successful outlet center in China, **Shanghai Qingpu Outlets**. "We'll knock it off the map," he said, "because we're Western style and we bring the relationships with the top retailers." Kelly previously worked for Chelsea Property Group opening centers in Japan.

EWB principal Peter Edelmann said **T-Rex Theater (Theatre Real Extreme)** has opened at **Essex (Vt.) Shoppes and Cinema**. The 400-seat theater has a 60-foot curved screen, leather rocking chairs, and crystal clear sound provided by 105 speakers and 18 amplifiers. "We were looking for a 'wow' effect," Edelmann says, adding that the center's market share has increased by 9 percent since the theater opened and tenants are soaring above their sales plans. Edelmann is also negotiating to buy additional land to add a 50,000-sf expansion. New tenants at the center include **Brooks Brothers, Justice, Crocs and Soma**.



Edelmann

On other projects that EWB is leasing and

marketing, **Outlets at Corpus Christi** has a new but unnamed equity partner (developer **Dolphin Ventures** first announced the project just as the economy fell).

Gregg Goodman, president of Mills Corp., talked about **Macy's** planned opening in **Gurnee (Ill.) Mills**; he said the 140,000-sf store will be one-level and will tenant the mall's full-price wing. Mills is creating two other wings at the 1.8 million-sf mall – an outlet wing and a junior/moderates wing. "Customers don't care about perception," Goodman told VRN. "They just like what's easiest."



Goodman

The atmosphere at the **Tanger Factory Outlet Center** booth was high-energy, as leasing execs pored over new projects in Ottawa with **RioCan**, Phoenix with **Ellman**, and Washington, D.C., with **The Peterson Companies**. Speculation was also running high on the outcome of the Houston site fight, where Tanger and Simon Property Group had parcels less than four miles apart. The issue was resolved a month after RECon when the two rivals announced a JV that puts a Tanger Center on the Simon site. Stay tuned.

Consultant **John Wetzler** was making the rounds with **Keri Driscoll** and **Rich Cremin** of the **Life is Good** company – since the trio was seen in the **DOC&R** booth, are they planning to open outlets?



Craig Delasin, managing director of Urban Retail Properties, has been focused on China, where the developer's Asian office will open **Shanghai Fashion Outlet** in September. Urban's Taiwan project has already opened in a former department store with a Carrefour in the basement. Glass partitions separate the stores, which not only adds leasing flexibility but it lets shoppers see from one store to another.

"The biggest challenge in China," Delasin said, "is merchandise. Nobody has merchandise."

Corbett Wall and Bryan Chen, whose company **Project Asia**, works with Urban on assisting retailers, explained that not all factories in China are authorized for domestic sale. Thus, product made there first has to be exported and then imported back into the country. Often there isn't enough product for a chain of stores, so local brands set up shop, pirating the designs and filling in the void. They said it will take

years to overcome inventory issues. One solution – licensing – doesn't work at all for outlets, according to Wall and Chen.

Blake Cordish, VP of the Cordish Company, talked about the "strategic partnership" his company has formed with **Tanger Factory Outlet Centers**. In May, Tanger acquired the majority interest in two Cordish properties: **Atlantic City Outlets-The Walk** and **Ocean City Outlets**. Cordish retains 100 percent ownership of the phase 4 expansion at the Walk, he said. Regarding other Cordish projects that combine outlets and gaming, he said, "There's no comparable engine for driving retail sales like gaming. It's 24/7, 365 days a year. Millions gamble and nearly half walk away with winnings."

Doug Neil, VP of Daniel Corp., developer of the **Shops of Grand River in Leeds, Ala.**, said his wife is the No. 1 shopper at the **Coach Factory Store** that just opened in the nine-month-old center. "Her closet's full of purses," he said. "I didn't know anybody could have that many purses. And it seems like she brings home more every day."



Neil

At **Craig Realty Group's** booth, regional asset manager **Mary Graves** said the developer had launched a shuttle from the **Citadel Outlets** in Commerce, Calif., to Anaheim and back for \$14. Anaheim, 20 miles south, is home to Disneyland. Leasing execs were talking up a site in **Richmond, Va.**

Over at **The Peterson Companies'** booth, **Milton Peterson, principal**, talked about his company's new relationship with Tanger. "We're both family companies," he said, explaining one of the factors that helped forge the JV to develop a **Tanger Outlet Center at National Harbor** on the Potomac. "Everybody's been calling, wanting to get into this project. Real estate has a personality just like people; outlets are Marilyn Monroe and Michael Jordan. The concept is perfect, exactly what National Harbor needs. After 2008 people got scared. They worry about job security, their homes, their savings, their standard of living. Outlets let them buy more and maintain their quality standards."

Regional mall developer **Macerich** and outlet developer **AWE Talisman** announced just before RECon opened that they'd be developing **Fashion Outlets of Scottsdale** in Arizona. **Art Coppola, CEO and chairman** of Macerich, told VRN that even though his company owns the land on both sides of the



Gilad Development, whose outlet centers feature operating vintage trains, had a great booth give-away for hungry attendees: train mix with Lakeland Station stats in place of nutritional info.

intersection, the outlet quadrant hasn't been selected. He also said Macerich didn't buy the property with outlets in mind. "We just knew it was a great location," he said.

Arthur Weiner, chairman of AWE Talisman, said the site and the concept will be "a thoughtful fit," adding, "we work hard to create quality. We intend to create the next generation of shopping, and in our minds, excellence is the only way to go."

Weiner said he's known the Coppola family many years because the Weiner family founded the **Deb Shops**, which grew to a 400-unit chain. "I was a long-time tenant of Macerich," he said.

AWE will handle leasing; Macerich will handle construction. Beyond that, the JV partners didn't want to discuss whether they'd develop future sites together. Coppola did say he had no intention of converting any Macerich centers in Arizona to outlet tenancy.

FFO Real Estate Advisors, a consultancy formed by three former Prime Retail leasing execs (**Scott Fisher, Scott Ferguson and Laurence Oster**), was busy in the **DOC&R** booth leasing at least four projects. They've got a ton of LOIs for **Spectrum Capital's** project in Jackson, Miss., the one called **Outlets at Bloomfield**; Spectrum's mulling over a name change to **Outlets at Jackson**.

On **Maui Outlets**, the FFO team said developer **Eclipse Development Group** has put more than \$54 million into the new-construction project, which has taken 14 years to gain entitlements. Now we know why retail is so sparse in Hawaii.

FFO is also leasing **Territory Inc.'s Newpark Fashion Outlets in Kimball Junction, Utah**, and has just added **Miromar Outlets** to its roster. FFO will go after fashion brands for the Estero, Fla. project.

Terry Sturm, CEO of Territory Incorporated, told VRN that her Las Vegas-based company develops strip centers (the retail kind) and that her planned 150,000-sf **Newpark Fashion Outlets in Kimball Junction, Utah**, is her first outlet venture. Although **Tanger Outlets at Park City** is nearby, Sturm doesn't see any

competition as she plans a "boutique-y, fashion-centric" merchandising approach. "We have a wonderful, affluent international shopper who lives and plays in Kimball Junction, but there's no place to shop for high-end sporting goods and fashion," she said, adding that the town has plenty of art galleries.

A hint that retailing will do well there is the performance of a **Best Buy** that opened in 2009. Sturm said her company tried to hold off on developing the building for Best Buy, but the electronics retailer held their feet to the fire. Now that store is one of the chain's top producers, with 500 to 700 shoppers a day. According to Best Buy, of the 150 stores the chain opened in 2009-10, the Kimball Junction store ranked 3rd for profitability and it is consistently in the top three stores for highest gross sales per ticket. "It's a high-end Best Buy, and that speaks to the affluence of the area," Sturm said.

David Ober, who handles leasing, marketing and management for **Rockvale Outlets in Lancaster, Pa., and Outlets at Hershey (Pa.)**, has formed a new company, **Global Outlet Management**. The new entity is pursuing several ground-up projects, and Ober was busy telling tenants about his planned 335,000-sf **Outlets at Springfield (Ill.)** project, planned to open in November 2012. He said Springfield reminds him of Hershey, where his center does \$410 psf. Springfield is the capital of Illinois, and Hershey is about 20 miles east of Pennsylvania's capital, Harrisburg. And both cities have strong tourist draws: Hershey has chocolate; Springfield has Lincoln.

Bill Taubman, COO of Taubman Centers and past chairman of ICSC, told VRN, "We've looked at Canada, and we agree with Simon. We don't see a lot of opportunities there." He said Taubman's JV with **Bruce Zalaznick's Outlet Partners** has "nothing to announce now." Zalaznick will find suitable outlet sites and get the entitlements, Taubman said, "and we will handle leasing internally. These projects take six to 10 months for entitlements, then 18 months

to lease and open. We wouldn't open anything before summer 2013 or spring 2014."

He added that sales psf at his company's **Great Lakes Crossing Outlets** has increased to \$564. "Our investors like the quality of our balance sheet," he said. "We have the highest sales psf in the industry. We were up 12 1/2 percent in the first quarter when most other REITs are increasing 4 to 5 percent. We can raise rents." He added that Taubman Centers has the only regional mall under construction — **City Creek Center**, part of a downtown redevelopment in Salt Lake City.

Karen Fluharty, busy with multiple clients, said her new company's website is now live: www.strategyplusstyle.com.

Paragon Partners headed by former Prime Retail execs **Bob Brvenik and Nick King**, was about to break ground on **Paragon Outlets at Grand Prairie (Texas)**. The developer expects the 484,511-sf center open by August 2012.

Frank Was of the **Was Group**, which is handling leasing for **Shops at the Sands in Bethlehem, Pa.**, is hoping the 130,000-sf outlet project will be open for the 2011 holiday season. The Sands Casino Resort Bethlehem's 300-room hotel opened May 27.

Susan Hawley, property manager of **Power Square in Mesa, Ariz.**, said she'd like to get more outlet tenants back into the 171,019-sf center, to join **Corning Corelle Revere, Dress Barn, Izod, VF** and others.

Yehuda Netanel and Rene Daniels of Gilad Development, whose 310,813-sf **Lodi (Ohio) Station Outlets** is the nation's only outlet center featuring an operating vintage train, had a great booth give-away for hungry attendees: train trail mix, with Gilad's outlet-center stats in place of nutritional info. ▮