



# VRN

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## Mills looks to outlets

Simon's Opry Mill

**VRN Spring Outlet Retail Deal Making Issue, March 26-27**

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Bring on the bloggers**

# Is outlet tenancy the magic pill?

It's no secret that outlet chains sometimes tenant non-outlet centers, and when enough of them do, the result is...

By VRN STAFF

**LOOK! JUST OFF** the Interstate! It's a bird! It's a plane! It's a shopping center/mall conversion to an outlet center hybrid!

Yes – but is it a compelling enough retail format to sweep broadly across the industry? Will outlet center operators find themselves increasingly facing competition from conversions that have the advantage of proximity to urban populations? Will they wade into the action themselves, acquiring fatigued properties in up-turning markets? Or does the recent spate of conversions and hybrids have something new to add to a long-time practice?

Experienced eyes around the outlet industry offer divergent views.

"Hybrids are a big deal for our company," said Sharon Haggard, director of real estate, Chico's FAS. "I think we'll see more outlet retailers going into value centers because of ridiculous rent increases in both outlet and full-price centers. I don't blame them for the increases, but everyone has to adapt."

Chico's recently closed a store at Simon's Woodbury Common Premium Outlets to open in the adjacent project, Kimco's Woodbury Centre. Marketed by Was Group, tenancy at the Kimco property has swung toward outlets in recent months and now includes an Eileen Fisher Company Store and Talbots Outlet. "Kimco wanted to do a hybrid – not pure outlet center, not pure power center," said Was Group president Jeffrey Was, noting that its anchors include Kohl's, Michaels and Modell's.

Citing the Chico's move as an example, Was said there are many outlet tenants who make location changes within markets when their leases expire, especially in dominant centers, such as Woodbury Common.

"The Kitchen Collections of the world get priced out of some of these centers," Was said. Was is making early presentations for another Kimco conversion project, The Boulevard on Staten Island, which the developer plans to transform from an outdoor urban mall to an outlet-friendly hybrid center by 2018.



**Chico's has joined** Eileen Fisher and Talbots as outlet tenants at Kimco's Woodbury Centre in Harriman, N.Y., where rents are sharply competitive to nearby Woodbury Common Premium Outlets

## Doing both, separately

Taking another approach – putting outlets and value tenants in side-by-side projects – is a concept that New England Development likes.

"We're looking at adding the power-center piece to Asheville [N.C.], as we did in West Palm Beach, to build a bigger, better destination," said New England Development president Doug Karp.

Karp was referencing his company's properties on the same site at Interstate 95 and Palm Beach Lakes Boulevard, the year-old Palm Beach Outlets and the six-month-old Marketplace at the Outlets. The latter's tenant mix includes Bed, Bath & Beyond, DSW

**Centers with some outlet tenancy** have been around as long as brands have operated outlet chains.

Shoe Warehouse, Nordstrom Rack, Old Navy, PetSmart, Pier 1 Imports, Sports Authority, T.J. Maxx, Ulta and Whole Foods Market. The Marketplace has done so well that NED is considering repeating the side-by-side concept after opening Outlets at Asheville in May.

"We would keep the outlet center and the marketplace power center next to each other, but not mix the tenancy together," he said.

Federal Realty Investment Trust is testing the hybrid concept at its Westgate Center in Silicon Valley's dense urban community of San Jose. Federal acquired the 645,000-sf traditional center in 2004 and began reshaping the mix around existing tenants Target, Burlington Coat Factory, Ross, Hancock Fabrics and Michaels.

Jeff Kreshek, VP-leasing, West Coast for Federal, said retailers have been receptive to the concept, summed up in the Westgate leasing brochure as "The All-Inclusive Mix." Skecher in summer 2013, was the first brand to open an outlet store in the gradual conversion. J.Crew and Gap followed in November that year and

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Nike Factory Store opened in February 2014.

“We never really considered converting it to 100 percent outlet,” he said. Federal’s original intent was to attract soft-goods merchants as new anchors, but the Great Recession of 2007-09 meant focusing on keeping existing tenants and filling holes in the mix. Before that macroeconomic reversal, he said, “People would have said, ‘What’s wrong with your center? You have no Gap but you have a Gap Outlet.’ They might have looked on that as a failure. Whereas today that’s a great solution.”

In the past, most of the non-outlet centers that outlet chains tenanted were nowhere near outlet markets. But times have changed.

“Hybrids are starting to be marketed all over the country,” said Josh Podell, president, Podell Real Estate Advisors. “They’re inside the population centers, so that’s an advantage. A lot of strip owners should be doing this model. A few years ago, demolishing, like New Orleans Riverwalk and Palm Beach Outlets, was the trend. Hybrids are the next trend.”

Not everyone is convinced.

“All this conversation about hybrids – the trouble is that no one can prove how well they actually work,” said David Ober, president, Global Outlet Management. “Our research shows that consumers see the difference: They know a Mills from a regional mall from an outlet center.”

Hybrids cloud shoppers’ confidence, he said: “Customers are confused by whether the outlet stores in hybrid centers are really outlets.”

## The Bergen solution

No matter what they’re called – hybrid, off-price, value, value megamall, lifestyle, power – centers with outlet tenancy that’s significant but less than 50 percent of occupancy have been around as long as brands have operated outlet chains. VRN tracks 45 such centers that total nearly 23 million sf. These centers average approximately 35 percent outlet tenancy, so it’s fair to say that they account for about 8 million sf of outlet space in addition to the industry’s outlet-center total of 82 million sf.

But ever since 2009, when a struggling strip center in Paramus, N.J., was saved by the addition of outlet tenancy, developers have been trying to become the next Outlets at Bergen Town Center.

Although recognized as a thriving, 1.5 million-sf megahybrid, Bergen’s cache hasn’t been easy to replicate.

“Bergen works because there are no outlets to compete with it,” Ober stated. “Believe me, if Simon had a site in Bergen County, you’d have an outlet center there.”

Across the country, Kreshek noted that Westgate’s outlet tenants are within five miles of their full-price concepts.

“There’s less sensitivity to wholesale than there was five years ago,” Podell added. “The reason is the necessity to expand and the reali-



Gap Outlet, J.Crew Factory, Skechers and Nike Factory, all tenants in Federal Realty’s West Center in San Jose, Calif., are among the chains that seek non-outlet locations.

ties of real estate. The whole industry is moving closer to population centers.”

Frank Territo, who has leased outlet projects in Florida and Tennessee for two decades, said that radius restrictions play a role in how tenants choose sites, especially if they already tenant a nearby outlet center. “Tenants are leaving so much money on the table,” he said.

Pyramid Management Group, owner of the former Independence Mall in Kingston, Mass., has rebranded the 837,000-sf property (which opened in 1989) as Kingston Collection with the goal of transforming it into “an all-new eclectic mix of outlet and traditional retail, fine dining and entertainment.”

**“The whole industry is moving closer to population centers.”**

**– Josh Podell, Podell Real Estate Advisors**

The concept can be seen as a smaller version of the 850,000-sf value portion of Pyramid’s 2.4 million-sf Destiny US in Syracuse, N.Y., which counts more than 30 outlet chains among its tenants. They include Armani, Brooks Brothers, Chic Coach, Fossil, Guess, Michael Kors, PVF and Wilsons Leather.

Macerich and PREIT are pitching its million-sf Gallery in downtown Philadelphia to select outlet retailers. The property has origins as the founding flagship of Straube & Clothier in 1868. Now a congregation of a half-dozen buildings, the Market Street center is in the early stages of a renovation. Off-price retailer Century 21 opened the center in fall 2014.

Although many developers might view outlet tenancy as a magic pill for their existing centers, at least one will just watch for a while.

“Hybrids are great, just not who we are,” said Mark Silvestri, COO, Simon Premium Outlets. “We’re focused on outlet centers and improving that model.” **V**