



15 things to know about outlets

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Contributing Writer

In **ICSC/VRN's** webinar, "15 Things You Really Need to Know About Outlet Retailing," a group of seasoned outlet execs batted around topics ranging from site selection to predatory leasing to outdated research. The webinar, held June 19, was one of ICSC's most successful to date, with more than 150 viewers, including the program's highest number of international participants. Here is a recap of the points that were covered:

1. A hands-on business

David Ober, president of Global Outlet Management, got straight to the point: "Outlet retailing is one of the most difficult real estate sectors to manage purely as an asset. In the 1999 to 2008 period we had lots of failures as community and neighborhood center developers tried their hands at the outlet business. Given the breadth of activities occurring on outlet properties, you have to be deeply involved to be successful. From marketing to management, you need to focus on the daily business and recognize that outlets have a different financial model, and that's a challenge for asset managers."

2. Only the best dirt

Jeff Montang, VP of Real Estate for the AM Retail Group, addressed how parameters of site choice have changed. "We have to continually refine the site-selection process as outlets move from rural locations to more densely populated areas," he said. "And the design of the centers must really be able to handle customer flow and traffic."

Dan Cochran, partner and head of new tenant representation at EWB Development, drew on his 25 years of experience as an outlet retailer. "Outlets need the best dirt," he said. "When outlet development took off in the mid-to-late '80s, outlet centers located as far from regional malls as possible because of our wholesale sensitivities. Today as competition grows and sensitivities diminish, what's more important is proximity to main interstate roads, on and off ramps that feed into your center, and food and gas amenities right there. Quite frankly the dirt has to be better than what Walmart picks."

Barry Sturm has been the director of leasing for Guess Factory Stores for six years, but he also has years of experience in outlet development. Bringing both perspectives to bear, Sturm pointed out the differences between shopping at traditional malls and shopping at outlet centers. "People

come to shop the outlets," he said. "Shopping is the only reason to come to an outlet center. Mall visitors might come to eat, visit the game room or just loiter. Outlets need to be convenient to a local population, near a major artery. The site has to be the right spot and as easy as possible to reach. Outlet centers really need the best dirt in the best location or they will fail. In the past 30 years many outlets have failed because shoppers think, 'why travel to a cornfield?'"

Sturm posited that close-in locations are the wise choice for today's outlet centers. He reasons that working parents are time-poor and not eager to spend money on gas just to go shopping. "If you're going to outlets to save money," he said, "the last thing you want is to spend \$25 round-trip on gas."

3. Intense marketing

Marketing outlet centers is a completely different animal, according to panelist Lisa Wagner, a partner in EWB Development. "It's very intensive because we have so many centers with metropolitan and tourist customers. Tourists require a special strategy, from group tours and wholesale tour operators, whom we engage early on, versus individual tourists and metropolitan shoppers where the marketing is different."

Because of the tourist connection, siting a center in Orlando or Las Vegas or near New York City or San Francisco is important for all the marketing efforts. "If there's a there there," she said, evoking Gertrude Stein's swipe at Oakland, Calif., "it's much easier to market the outlet center as another reason to visit."

4. Center design matters

But the outlet center cannot rely on the market's attractions for success. It has to deliver great brands and bargains and be an easy, enjoyable place to shop. Montang is a fan of the racetrack design for moving shoppers around the center with minimal exertion.

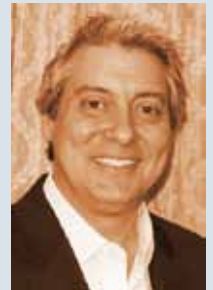
"With the average time spent at an outlet about three hours, you want your shoppers to easily flow through and visit more retailers," he said. "In a racetrack format you want to get your co-tenants right. In an elongated center, the closer you are to the middle of the center, the better your odds are of getting the most traffic."

5. Working together

According to Ober, one reason many full-price retailers are looking at the outlet sector is because operating costs are significantly lower in outlet centers. "Base rents and CAM

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Speakers



Cochran



Montang



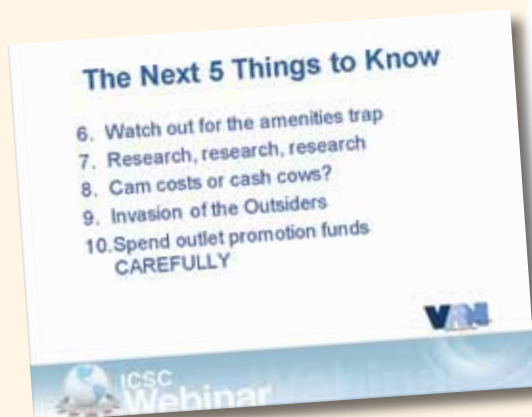
Ober



Sturm



Wagner



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charges generate lower rents and they eliminate some crazy amenities,” he said, cautioning that outlet retailers must provide a product that works for shoppers, and outlet developers have to create a property that works for the retailer. “The center has to work for both sides.”

6. The amenities trap

The panelists stressed the importance of the basics over excessive add-ons. “Amenities that don’t add to the shopping experience are a distraction,” Wagner said. “Design both your merchandise mix and your center to be optimally approachable for a pure shopping experience. Our data shows that the more stores we can get shoppers into, the greater the spend – and it doesn’t top out until they’ve visited more than 17 stores. So move your shoppers around.”

Some attractions, such as a small playground that allows dad to babysit and gives mom more shopping time, are a definite plus, she added, but she said some amenities can create inefficiencies. Wagner told the tale of an outlet center with landscaping that was so ornamental that it required snow removal by hand. The cost to clear the center during the six to seven annual snowfalls? About \$50,000 per removal.

However, with the influx of international shoppers, amenities such as bi-lingual sales associates, money exchanges and valet parking are useful. “Remember, though, the No. 1 amenity is a clean restroom,” Wagner said.

7. Research, research, research

Regarding research, Cochran urged using Google to research new markets and above all, don’t use old research. “It’s very important to have the most current statistics on centers and the environment,” he said. “We don’t need empty verification. We need the latest information. Scour material and be on alert for the most current info available and put it in front of your clients before they ask for it. The days of using a brochure for a year are over, update quarterly, monthly if possible.”

Ober, who has been steeped in economic and macro research for decades, isn’t just looking at demographic rings and proximity to outlets, but more deeply at psychometrics.

“We are looking at the time spent at outlets and at the outlet enthusiast,” he said. “We’re identifying this enthusiast by finding out which types of media, social media and websites they

use and by discovering their motivations. Also, we are looking at which brands have an impact on sales of other brands. Outlet research isn’t all about high-end tenants, but the right merchant mix to maximize traction in the outlet center.”

Ober suggested checking out ICSC research funded by Goldman Sachs to see how many people go to outlet centers versus regional malls on a weekly basis. Smaller focus groups provide a bevy of information, along with zip-code studies.

8. CAM costs

Common area maintenance brought a heated reaction from Sturm, who doesn’t mind fixed CAM charges, per se, but what gets his goat is what happens at lease renewal time. “There’s something wrong when the landlord goes to a fixed CAM charge and the number jumps from \$4-\$5 a foot to \$10 or \$12 for a 100 to 150 percent leap without an accounting of where the increment is being spent. Are we paying for common area maintenance or is this a cash cow for landlords?”

9. Promo funds

Wagner suggested that tenants should pay into a promotional fund because marketing is so vital to the health of their business. “But I’m adamant on it not being a profit center,” she said. “The brands rarely have the budget or the flexibility to market themselves, so it’s critical to have center promotional funds to mount a sophisticated campaign.”

Wagner urges tenants to demand the highest level of transparency. Cochran went further: “Make sure you have the right to audit and see where those funds are being spent.”

10. Outsiders

Outlet centers have been the darlings of the retail industry for a couple of years now, attracting “outsiders,” developers who are new to the industry. Montang worries that some of these new players, who seem to have little sense of the cyclical nature of the business, only see the sector’s low operating costs and attractive margins. He worries that these new players are causing rents to rise. At the same time, Sturm worries that full-price tenants are diluting the value offering of the outlet center with prices that are identical to regional mall prices.

11. Global glitches

Citing recent outlet research from China, Ober said that less than 10 percent of visitors are return shoppers because they are disap-

pointed that the outlet center isn’t what they thought it should be. ICSC research reveals that U.S. consumers clearly know the difference between full-price and outlet, he said. “Retailers shouldn’t go into outlets because of lower rent,” Ober said. “Take the time to work out a planned outlet concept that is distinct from full price.”

Wagner spoke about quasi-outlets in many countries, where operators ran up to 20 full-price shops in the outlet environment. When they run out of merchandise, they bring in unrelated goods. Licensees are among the worst offenders, with brand’s parent companies knowing nothing about it. “This is brand destructive and ultimately caused many brands to buy back their licenses,” she said.

12. Retailers you need

Ober suggested blending local buying habits with those of tourist shoppers. He reminded those on the webcast that “what works in Europe doesn’t necessarily work in the U.S. Get the best retailers for your market and focus on who your consumer is and what they want.”

13. Lease protection

With leases as thick as phone books, Montang said, a good lease review team is a must.

Cochran advocated co-tenant lease protection. “Try to sign leases early and ask for a little something (more allowance or a better rent) because you are first; you need an obligation from the landlord. Ask for six of the 10 big-name tenants that will be in the center such as Saks, Nike, J. Crew, Under Armour and Calvin Klein. Co-tenancy is very important.”

14. Sales associates, inventory

Wagner urged vigilance regarding tenants’ merchandise and staffing levels. “At EWB we use sales training seminars to enhance the overall shopping experience,” she said. “We want engaged associates and great product.”

15. The future

The session closed with a list of potential risks to the outlet industry.

Cochran: “Unknowledgeable, independent landlords with third-party lenders could create a replay of the lifestyle-center failures we saw in the ‘90s.”

Sturm: “We must keep outlets with appealing product that is a value. Some landlords are charging outlets higher rent than the most sought-after full-price locations, such as The Forum Shops and Short Hills. The more this happens, the less profitable outlets are for retailers. If we mess up the value equation, we’ll have big challenges down the road.”

Ober: “Despite the outlet industry’s phenomenal growth every quarter since 2007 globally, we can’t let occupancy costs go crazy where only developers make money.”

Wagner: “Brands need to acknowledge their outlet strategies with pride. For many it’s their cash cow. Get over old, lingering, self-defeating concepts. Don’t let others define us.” ■