

RETAIL TRAFFIC

Where real estate, retail and development meet

July 18, 2007

With summer temperatures heating up, this is the season for vacationers to head to the seashores. The throngs of sun worshipers can be gold for developers – particularly developers of outlet malls – as shopping for bargains has become as much a part of the season as searching for seashells.

So far, this summer is shaping up to be a good year for outlet shopping centers, in spite of inflationary concerns, a weak housing market and rising food and gas prices. The Travel Industry Association of America forecasts approximately 329.6 million people will take trips in June, July and August, a 1.4 percent increase over the 324.9 million in 2006. Among their top destinations are the beach, mountains and national or state parks.

Sales figures for some of the country's largest outlet operators, many of whose shopping centers are located in resort destinations are rising. Tanger Factory Outlet Centers, Inc., based in Greensboro, N.C. and operates 30 outlet properties, many in resort locations, reported a 5 percent increase in comparable sales, at \$344 per square foot in the first quarter of this year. The company targets those destinations that draw at least 5 million visitors a year.

Indianapolis, Ind.-based REIT Simon Property Group, Inc., meanwhile, which operates 36 premium outlet centers through its Simon Chelsea subsidiary reported a 9.2 percent increase in comparable sales for the 36 premium outlet centers it operates in the United States during the first quarter, up to \$485 per square foot. It anticipates continued strong results this summer. However, getting a full read of the industry is difficult as some outlet center operators--like Belz and the Lightstone Group (which operates Prime Retail), are privately-run and don't disclose sales figures, according to Linda Humphers, editor-in-chief of *Value Retail News*, a monthly publication that serves the international outlet/value retail industry, because the prominent outlet center owners stopped disclosing their sales figures.

A good summer is critical for outlet center operators since sales during the period can account for up to 80 percent of their centers' annual total, industry experts say. Resort shopping centers have a finite window in which to do the bulk of their business, explains Scott R. Lynn, director/principal with Dallas-based Metropolitan Capital Advisors, Ltd. (MCA), which arranges debt and equity capital for real estate investors and developers.

And, it's not just the beach resorts. At one ski resort MCA financed in Colorado, the tenants did 80 percent of their business in four months, Lynn notes. At Settler's Green Outlet Village, a 250,000-square-foot center developed by Robert

Barsamian in North Conway, N.H., where the peak season starts in the summer, 60 percent of sales are done between July and December, according to Dot Seybold, the general manager. The dependency on those select few months, however, can be adversely affected by weather and economic conditions and that has caused a sea change in the way developers and retailers position resort outlet centers.

"If the center is dependent on only one or two seasons [out of the year], the sales have to be extremely strong during those times," says Jeff Green, owner of Jeff Green Partners, a Mill Valley, Calif.-based consulting firm. "That's why the older centers are struggling."

Overall, tourists spend \$1.8 billion a day, according to Shop America Alliance, an organization that represents 200 tourist-oriented shopping destinations across the United States. The most visited tenants at outlet centers in resort locations are apparel retailers. Those selling kitchen appliances, gifts and other knick-knacks also generate a lot of traffic. However, home furnishings don't sell well, according to Green, because they cannot be packed or shipped easily.

Outlet centers in resort locations are extremely attractive to retailers because of the lower rents – on average, 50 percent less for a comparable space at a regional shopping mall located within the same area, says Green--but they profit considerably from the high volume of traffic.

"That's why the tenants can make the numbers work--they are paying less and getting [a lot of] sales," explains Seybold.

The most successful centers, according to Lynn, are those that are part of a compact resort complex, with hotels, restaurants and recreation venues located close together. For outlet centers built decades ago that's a problem, Green notes, because in many cases their sites were chosen on the premise that they would eventually become a destination, without developing synergies with surrounding recreational and tourist attractions. Ten minutes is the most vacationers will drive to the local outlet center, according to Bradley A. Kaufman, a partner in the real estate practice of **Pryor Cashman LLP**, a New York-based law firm.

To minimize the dependency on sales during the high season, many resort outlets are focusing on sites that lure shoppers year-round. For example, a winter ski resort that caters to hikers in the summer is economically more viable.

"More and more resorts are working hard to position themselves for year-round activities and the tenants can switch their inventories from season to season," says Lynn. "As a financier, that's what I look for – a unique shopping environment in an area that attracts year-round traffic."

-- Elaine Misonzhnik