Betting on outlets

2015 State of the Outlet Industry

The outlet development sector is still showing signs of substantial growth potential in both sales and GLA.

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OUTLET RETAILING has been on a winning streak for several years, and all indications point to a continued good run. In the two years since VRN's last State of the Outlet Industry report, the sector has upped its numbers in every category, from open and planned centers, to phase 1 and expansion GLA, to ownership and joint ventures, and even in rents and sales.

In just the last four years, from 2012 through the end of this year, 41 North American outlet centers totaling nearly 15 million sf of GLA have opened, and the pipeline remains robust with nearly 60 outlet projects and expansions planned by more than three dozen development groups.

That growth is significant for an industry comprising just 215 centers. Consider though, that 455 outlet centers have opened in the industry’s 45-year history. What happened to

Outlet Center Highlights

2015 North America
(U.S., Canada, Mexico and Puerto Rico)
Number: 215
Total GLA: 83,492,526 sf
Average GLA: 388,337 sf
Average occupancy: 95 percent-plus
Average age: 17 years
Average rent: $41.34
Average center sales psf: $546.33
Average sales of 20 top-producing outlet centers: $998.90
Total outlet center sales: $45,614,471,730
Average center sales: $212,158,140
Average center revenue: $16,053,852

2015 United States
Number: 202
Total GLA: 79,866,893 sf
Average GLA: 395,381 sf
Average age: 17 years

2015 Canada
Number: 10
Total GLA: 2,598,817 sf
Average GLA: 259,882 sf
Average age: 12 years

2015 Mexico and Puerto Rico
Number: 3
Total GLA: 1,026,816 sf
Average GLA: 342,272 sf
Average age: 14 years

2015 North American Outlet Center Ownership
67 development entities own North America’s 215 outlet centers
51 own just 1 outlet project
16 own 2 or more for a total of 164 centers

20 joint-ventures own 27 centers
8 developers have outlet portfolios of more than 1 million sf; their portfolios include 165 centers totaling more than 72 million sf. In other words, the 8 portfolios account for 77 percent of the outlet centers and 86 percent of the space.

2014-2015 Outlet Center Openings
North America:
Number of openings: 22
Total GLA: 7,529,977 sf
Average GLA: 343,272 sf

United States:
Number of openings: 18
Total GLA: 6,166,978 sf
Average GLA: 342,610 sf

Canada:
Number of openings: 4
Total GLA: 1,362,999 sf
Average GLA: 340,750 sf

2015 Expansions to Existing Centers
12 expansions totaling 1,006,000 sf, averaging 83,833 sf; including 2 major expansions by Simon: 294,000 sf at Chicago Premium Outlets in Aurora, Ill., and 190,000 sf at San Francisco Premium Outlets in Livermore, Calif.

2016 Planned Outlet Center Openings
26 planned Phase 1 openings in North America totaling 10,834,384 sf
1 is planned in Canada and 1 in Puerto Rico
24 are planned in 14 states in the U.S.

2016-2018 Planned Outlet Center Projects
48 centers totaling 17,666,874 sf
43 in the U.S., in 20 states, totaling 15,066,874 sf
4 in Canada totaling 2,150,000 sf
1 in Puerto Rico totaling 450,000 sf

2016-2018 Expansions to Existing Centers
9 expansions totaling 1,436,000 sf
7 expansions totaling 905,000 sf planned for 2016

Source: Value Retail News Exclusive Research
the missing 240? The vast majority couldn’t maintain at least 50 percent outlet tenancy, which is how VRN defines an outlet center and culls the list each year. The reason for the strict definition is that maintaining outlet tenancy is considered to be an important factor in the industry’s long-term success and future.

In the 2015 State of the Outlet Industry report, compiled from VRN’s exclusive data, four projects that were previously part of the outlet database have been dropped for falling below the 50-percent threshold: Dolphin Mall in Miami (67 outlets out of 180 stores); Outlets at Bergen Town Center (31 outlets out of 78 stores); Outlet Collection Seattle (35 outlets out of 116 stores); Savannah Festival Outlet Center (seven outlets out of 21 stores and nine vacancies). Eateries and kiosks weren’t part of the tenant count.

Also dropped from the database were Casino Outlets Tunica (Miss.), which closed, as did the adjacent casino, and no information was available on Battenkill Plaza in Manchester, Vt.

Largest U.S. Outlet Centers 500,000 sf – 1 million sf

<table>
<thead>
<tr>
<th>CENTER</th>
<th>CITY</th>
<th>STATE</th>
<th>GLA</th>
<th>DEVELOPER</th>
<th>OPENING</th>
</tr>
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<tbody>
<tr>
<td>1. Woodbury Common Premium Outlets</td>
<td>Central Valley</td>
<td>NY</td>
<td>904,000</td>
<td>Simon</td>
<td>1985</td>
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<tr>
<td>2. Orlando Premium Outlets - International Drive</td>
<td>Orlando</td>
<td>FL</td>
<td>775,297</td>
<td>Simon</td>
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<td>3. Tanger Outlets at the Arches</td>
<td>Deer Park</td>
<td>NY</td>
<td>741,981</td>
<td>Tanger Factory Outlet Centers</td>
<td>2008</td>
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<td>4. San Marcos Premium Outlets</td>
<td>San Marcos</td>
<td>TX</td>
<td>737,000</td>
<td>Simon</td>
<td>1990</td>
</tr>
<tr>
<td>5. Chicago Premium Outlets</td>
<td>Aurora</td>
<td>IL</td>
<td>734,000</td>
<td>Simon</td>
<td>2004</td>
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<tr>
<td>6. VF Outlet Center</td>
<td>Reading</td>
<td>PA</td>
<td>734,000</td>
<td>VF Outlet</td>
<td>1970</td>
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<td>7. Tanger Outlet Centers Riverhead</td>
<td>Riverhead</td>
<td>NY</td>
<td>729,734</td>
<td>Tanger Factory Outlet Centers</td>
<td>1994-96</td>
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<td>8. Fashion Outlets of Niagara Falls USA</td>
<td>Niagara Falls</td>
<td>NY</td>
<td>708,000</td>
<td>Macerich</td>
<td>1982</td>
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<td>10. Las Vegas Premium Outlets North</td>
<td>Las Vegas</td>
<td>NV</td>
<td>689,000</td>
<td>Simon</td>
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<td>11. Birch Run Premium Outlets</td>
<td>Birch Run</td>
<td>MI</td>
<td>682,000</td>
<td>Simon</td>
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<td>12. Camarillo Premium Outlets</td>
<td>Camarillo</td>
<td>CA</td>
<td>679,000</td>
<td>Simon</td>
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<td>13. Orlando Premium Outlets Vineland</td>
<td>Orlando</td>
<td>FL</td>
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<td>14. Desert Hills Premium Outlets</td>
<td>Cabazon</td>
<td>CA</td>
<td>650,000</td>
<td>Simon</td>
<td>1990</td>
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<td>15. Wrentham Village Premium Outlets</td>
<td>Wrentham</td>
<td>MA</td>
<td>616,000</td>
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<td>17. Rio Grande Valley Premium Outlets</td>
<td>Mercedes</td>
<td>TX</td>
<td>600,000</td>
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<td>18. Gilroy Premium Outlets</td>
<td>Gilroy</td>
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<td>575,000</td>
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<td>19. Rockvale Outlets</td>
<td>Lancaster</td>
<td>PA</td>
<td>565,000</td>
<td>PA Outlet Management</td>
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<td>20. Tanger Outlet Centers Rehoboth</td>
<td>Rehoboth Beach</td>
<td>DE</td>
<td>564,593</td>
<td>Tanger Factory Outlet Centers</td>
<td>1989-95</td>
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<td>21. Tanger Outlet Center Foley</td>
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<td>AL</td>
<td>557,014</td>
<td>Tanger Factory Outlet Centers</td>
<td>1988</td>
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<td>22. Philadelphia Premium Outlets</td>
<td>Limerick</td>
<td>PA</td>
<td>553,000</td>
<td>Simon</td>
<td>2007</td>
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<td>23. Houston Premium Outlets</td>
<td>Cypress</td>
<td>TX</td>
<td>541,000</td>
<td>Simon</td>
<td>2008</td>
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<td>25. Las Vegas Premium Outlets South</td>
<td>Las Vegas</td>
<td>NV</td>
<td>535,000</td>
<td>Simon</td>
<td>1993</td>
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<td>26. Grove City Premium Outlets</td>
<td>Grove City</td>
<td>PA</td>
<td>533,603</td>
<td>Simon</td>
<td>1994</td>
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<td>27. Fashion Outlets of Chicago</td>
<td>Rosemont</td>
<td>IL</td>
<td>530,000</td>
<td>Macerich</td>
<td>2013</td>
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<td>28. Las Americas Premium Outlets</td>
<td>San Diego</td>
<td>CA</td>
<td>525,000</td>
<td>Simon</td>
<td>2001</td>
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<td>29. Williamsburg Premium Outlets</td>
<td>Williamsburg</td>
<td>VA</td>
<td>524,522</td>
<td>Simon</td>
<td>1988</td>
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<tr>
<td>30. Palm Beach Outlets</td>
<td>West Palm Beach</td>
<td>FL</td>
<td>500,000</td>
<td>New England Dev./Clarion</td>
<td>2014</td>
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<td>31. Seattle Premium Outlets</td>
<td>Tukwila</td>
<td>WA</td>
<td>500,000</td>
<td>Simon</td>
<td>2005</td>
</tr>
</tbody>
</table>

31 outlet centers | 14 states | Average GLA: 628,469 sf | 8 developers | Average age: 19 years

Source: Value Retail News
The list of operating outlet centers can be a moving target as projects often are quietly sold or gradually retenanted.

VRN’s data shows:

- 215 outlet centers will be operating through the end of this year compared to 201 at the end of 2013
- Total outlet GLA has risen to 83.5 million sf from 79 million sf in 2013
- Total outlet industry sales has gone to $45.6 billion compared $42 billion in 2013
- Average center sales are up to $546 psf compared to $532 in 2013
- The average sales of the 20 top-performing outlet centers is $999 psf

Although today’s industry is booming, this development uptick looks downright conservative compared to the wild-and-wooly 10-year period from 1986 through 1995 when an average of 29 centers opened each year. Today, just 88 of those 293 centers are still outlet, and those centers’ average GLA has nearly doubled with expansions to 280,000 sf from their original opening average of 140,000 sf.

In 2013, 30 centers had GLA between 500,000 sf and 1 million sf. VRN’s latest largest-centers list for that category now has 31 projects, thanks to new entry Chicago Premium Outlets. Simon’s 294,000-sf expansion there rocketed the 11-year-old center to No. 5 on the list.

Expansions played a role in moving three other centers up the list, too. A 170,000-sf expansion pushed Macerich’s Fashion Outlets of Niagara Falls USA to No. 8 from No. 24; a 190,000-sf expansion pushed Simon’s San Francisco Premium Outlets in Livermore, Calif., to No. 9 from No. 28; and a 150,000-sf expansion at Las Vegas Premium Outlets North took that center to No. 10 from No. 21.

Even Woodbury Common Premium Outlets, which has been the largest outlet center under 1 million sf since VRN began counting, grew to an even bigger No. 1 with a 60,000-sf expansion.

Outlet-center ownership provides an interesting snapshot of the sector. At the end of 2013, there were five outlet portfolios greater than 1 million sf. Those 2013 portfolios owned 136 centers totaling 47.9 million sf, or 66 percent of the centers and 60 percent of the GLA. Today there are eight 1 million-sf-or-more outlet portfolios that own 165 centers totaling 72 million sf, or 77 percent of the centers and 86 percent of the GLA.

Although those statistics point to increased ownership consolidation, the number of development entities owning just one project has increased to 51 from 47 in 2013.

The number of joint-ventures developing outlet centers has taken a huge leap in the last two years – 20 outlet JVs own 27 centers compared to eight JVs that owned 12 centers in 2013.

Looking ahead, more than 1 million sf of expansion are planned for 2016 through 2018 – and these are sizeable additions, each averaging 150,000 sf.

A very optimistic 26 phase 1 outlet projects have 2016 opening dates, but that number will surely dwindle in the coming months as tenants make tough decisions about sites and operators.

For the next few years, it’s safe to assume that the outlet industry’s winning streak can continue if everyone plays their cards right.