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Tanger, RioCan to launch upscale venture

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A \$1-billion shopping centre deal will introduce to Canada U.S.-style premium outlet malls, a move that will help transform the retail landscape and put further pressure on domestic players.

The agreement, unveiled on Monday, will open the way for shopping centres to woo more highend U.S. retailers to Canada amid a wave of foreign chains preparing to enter the country. It could prompt high-profile U.S. department stores – including Saks Fifth Avenue – to launch their off-price outlet stores in this country for the first time.

"It's a very different concept than anything we've got here right now," said Edward Sonshine, chief executive officer of RioCan Real Estate Investment Trust (<u>REI.UN-T</u>23.21-0.07-0.30%)in Toronto, which will build the malls with **Tanger Outlet Centers Inc.** of Greensboro, N.C.

The deal underlines the growing demand among U.S. retailers to chase Canadian consumers as they display a stronger willingness to open their wallets than their American counterparts. It comes on the heels of the announcement this month that cheap-chic discounter Target Corp. of Minneapolis has a \$1.8-billion agreement to buy most Zellers stores and convert them to Target's banner by 2013. Other U.S. merchants are set to open their first stores in Canada this year, among them action sports specialist Zumiez Inc. and fashion chains Express Inc. and J. Crew.

The latest deal "would provide an entry for a number of U.S. retailers who haven't been able to find space here," said retail expert Wendy Evans at Evans & Co. Consultants. "That's the biggest barrier right now to U.S. retailers coming up here."

For many Canadian merchants, the added competition will be "fairly devastating in the next few years," she said.

Today, just over half of retailing in Canada is foreign controlled, a figure that will rise to 70 per cent by 2015, according to Ms. Evans' estimates.

Tanger, a pioneer in bringing high-end retailers and manufacturers to outlet malls, already is trying to persuade Saks to bring its Saks Off 5th concept to Canada, industry insiders said. In a 50-50 venture, Tanger and RioCan plan to build 10 to 15 factory outlet malls over the next seven years across this country.

Tanger's U.S. tenants include the discount arms of upscale Saks, Nieman Marcus, Barneys, Polo Ralph Lauren, Coach, Lacoste, Kate Spade, Michael Kors and Brooks Brothers. Tanger's tight ties

with these retailers will help it convince the chains to come to its new malls in Canada, observers predicted. The malls will be located in larger urban markets and tourist areas.

Mr. Sonshine said he started to hear from U.S. retailers as early as last spring that they couldn't find enough space in Canada to expand their outlet stores. Mainstream chains, such as Gap Inc., which runs its namesake stores as well as Banana Republic and Old Navy, were also looking to add more off-price outlets.

The pent-up demand reflects a dearth of opportunities south of the border because of a lack of mall development there, he added.

"There's no question that there will be some retailers that will come to Canada with their stores that wouldn't have otherwise come," Mr. Sonshine said.

The advent of U.S. factory outlets coming to Canada raises the heat for domestic retailers, Ms. Evans said. "It's going to provide a lot more competition for the likes of the Bay and stores in the traditional enclosed shopping centres ... For Holt Renfrew and higher-end retailers, it's going to be very challenging."

Tanger isn't alone among U.S. outlet mall developers that have surveyed the Canadian market, said John Crombie, national retail director for real estate consultancy Cushman & Wakefield. "Many have been surprised by the high real estate costs in our country and the lack of 'ready-to-build' sites," he said.

"Canada is definitely on the radar screen with U.S. retailers and developers," Mr. Crombie added. "We have a stable and growing economy, and solid consumer spending."

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