



Is RioCan's Latest Strategy Good for Investors?

Description

RioCan ([TSX:REI.UN](#)) CEO Edward Sonshine is known as “Darth Vader” in Toronto's Kensington Market, a trendy downtown neighborhood. It's where he planned to build a Walmart, before backing off last week. But Mr. Sonshine is also widely respected; he was recently named Canada's Outstanding CEO of the year for 2013 by Bennett Jones, despite a declining share price for RioCan that year.

Over the past 10 years, the defining theme of Mr. Sonshine's strategy has been urbanization. He has methodically been pulling the company out of smaller cities and into larger ones where the populations are growing much faster. Now he has a new plan, this one to build residential apartments on top of RioCan's largest tenants.

There are strong arguments in favour of Mr. Sonshine's latest idea. The growth of online retailers has put tremendous pressure on traditional retailers, including RioCan's top two tenants, **Walmart** ([NYSE:WMT](#)) and **Canadian Tire** ([TSX:CTC.A](#)). For the apartment dwellers above its stores, these retailers could potentially eliminate the convenience edge that their online rivals currently enjoy – this would provide a boost to their sales. Likewise, apartment tenants may find the convenience of living next to major retailers very attractive, and may be willing to pay higher rents. Even without these synergies, RioCan would certainly be getting more use out of the land it currently owns.

Then again, there are certainly arguments against RioCan's strategy. Many of Canada's largest cities, such as Toronto and Vancouver, have seen tremendous growth in the supply of condominium units – if prices for these units suffer steep declines, then RioCan could feel a lot of pain. Furthermore, the company's specialty is retail, which accounts for 95% of its revenue. On the other hand, other investors may want to lower that number by diversifying into other forms of revenue.

Foolish bottom line

With Mr. Sonshine's track record, investors should hold off their judgements for now. A \$70,000 investment in RioCan in 1994 would be worth \$1 million today. So even if RioCan stumbles with its latest strategy, its shareholders should be in a forgiving mood.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:WMT (Wal-Mart Stores Inc.)
2. TSX:CTC.A (Canadian Tire Corporation, Limited)
3. TSX:REI.UN (RioCan Real Estate Investment Trust)

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