Malls Aren't Dead Yet — 3 Promising Retail REITs to Buy Now

Description

These days, you can buy pretty much anything you'd like on the internet.

Even though **Amazon's** Canadian division doesn't have the selection that American consumers enjoy, customers can still buy plenty of things from its Canadian site. There are startups that will let you order fresh produce or fresh meat online and deliver it to your doorstep, and it's only a matter of time before a major grocery chain gets into the business in a big way. And once Elon Musk gets his way, buying a **Tesla** vehicle online and bypassing dealerships will be easy.

Many Canadian retailers have been hurt by losing market share to internet competitors. It's hard to maintain profit margins when customers can pull out their smartphones and see what competitors are charging for the exact same product. Some stores have been able to stem the tide, but others have struggled mightily as sales decline.

This is all very bad news for the shopping mall, the quintessential representation of our consumer driven economy. If more people turn to the internet to buy stuff, that means less traffic in malls. This phenomenon became very real recently with the bankruptcy of mall food court stalwart Sbarro, which stated that declining mall traffic was one of the reasons behind its demise.

Although I couldn't find any specific numbers, Canadian retail observers seem to agree that mall traffic was down during the 2013 holiday season. The number of empty storefronts in the malls I visit aren't huge, but they exist. It isn't a great time to own shopping malls.

But I'm not ready to give up on shopping mall REITs, which are doing plenty to prolong their eventual deaths.

For instance, **RioCan** (TSX: REI.UN) is starting to move away from the traditional shopping center and is developing urban markets that are smaller and more convenient. These urban markets are often close to public transport, alleviating the lack of parking, which is one of the major issues with going to a shopping mall.

RioCan also has some of the strongest retailers in the world as its tenants. Each of its locations are anchored by strong names with a history of opening new locations, not closing them.

Calloway REIT (TSX: CWT.UN) is Canada's second largest shopping mall owner. Its strategy is somewhat different than RioCan's. Calloway has hitched its wagon to the biggest and baddest retailer in all the land, **Walmart**. Just about every major property the company owns has the retailer from Arkansas as the anchor tenant. A whopping 25% of gross rents come from Walmart, five times the amount of its second biggest tenant, **Canadian Tire**.

One thing I notice whenever I go into Calloway- and RioCan-owned malls is the number of non-retailers leasing space. The mall nearest to my house has a dentist, a chiropractor, a condo developer, and a mortgage broker. Look for this trend of professional service companies leasing mall space to continue. The mall operator gets lease revenue, while these non-traditional tenants get the benefit of walk-in foot traffic.

H&R Real Estate Trust (TSX: HR.UN) has a slightly different strategy than RioCan or Calloway, diversifying into office and industrial properties. H&R currently holds 41 office properties, 112 industrial properties, and 164 retail properties. The company has a little extra exposure to retail, as many of its industrial properties are retail warehouses and distribution centers.

H&R recently increased its exposure to Canada's shopping mall market, acquiring Primaris REIT, the owner of 27 retail properties across Canada, for $4.6 billion. At the time of the acquisition, Primaris had rental occupancy of more than 98%. If the smartest people in the industry are betting on the future of the shopping mall, it can't be such a bad place to invest.

Foolish bottom line

Although it's obvious shopping malls may never see the traffic they enjoyed before internet retailers, the death of the shopping mall has been greatly exaggerated. It's pretty much business as usual for the largest operators in the space. They've done a nice job replacing struggling retailers with medical offices or financial service branches. And hey, malls aren't even filled with teenagers anymore. It's not such a bad time to invest in shopping malls.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:HR.UN (H&R Real Estate Investment Trust)
2. TSX:REI.UN (RioCan Real Estate Investment Trust)
3. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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Date
2025/08/28
Date Created
2014/03/27

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