Will Online Shopping Make the Mall Obsolete?

Description

I spent years working in retail, so I like going to the store.

I've always viewed the world of stores as a fascinating place, like a puzzle that has multiple solutions. Take the grocery business as an example, a specific sector where I have most of my experience. High-end stores and low-end stores sell 90% of the same merchandise, yet one convinces customers to regularly pay a premium for the exact same product.

But I'm in the minority, or so it would appear. Many of my peers hate going to the store, and will exclusively order everything they can from **Amazon**. As soon as it, **Wal-Mart**, or some other company perfects the ability for folks to order groceries online, these people will never need to physically step foot in a store again.

Savvy investors already know this is going on, and have used the information to avoid certain stocks. Many of Canada's specialty retailers are getting hammered, especially in segments of the market like clothing and electronics. Those segments don't have much for pricing power and can easily be bought online at minimal risk to the consumer, so it's natural that investors would be bearish on those retailers specifically.

It isn't just those specific retailers that are suffering from declines though. You could make the argument that just about every retail sector is about to experience meaningful declines as more people buy more things online.

Just how will this affect Canada's largest retail REITs? Let's take a closer look.

Adapt or die

Smart REIT (TSX:SRU.UN), which was formerly called Calloway REIT, has a pretty simple strategy it thinks will stand the test of time. It's partnering up with the biggest retailer out there, Wal-Mart.

The company owns and manages nearly 150 different shopping centres, with some 31 million square feet in leasable area, with Wal-Mart being the anchor tenant for 96 of those buildings. Although Wal-

Mart is investing in online sales and is quickly becoming a leader in the space, its stores still generate substantial foot traffic. This foot traffic attracts other tenants, which gives Smart REIT an occupancy of greater than 99%.

But what about a company like **RioCan Real Estate Investment Trust** (TSX:REI.UN), which is much more diversified? It boasts 340 total properties spanning nearly 80 million square feet, with 293 located in Canada, and the other 47 located stateside. The company has recently announced its intention to sell its U.S. assets, so we'll focus primarily on the Canadian side of the business.

RioCan has mostly attempted to get ahead by doing the opposite of Smart REIT, by diversifying away from one specific tenant. It's been a successful strategy, with the leading tenant only representing about 4% of the company's total revenue.

RioCan is also adapting by diversifying into different areas of the market. It has many properties that were in the suburbs when purchased 20 years ago, which are now sitting on land that's appreciated in value considerably. RioCan's strategy is to use this space to develop new facilities that combine retail space with rental apartments.

These new developments are cheap to put up, since there's no initial land cost. And tenants tend to like them since they're new, have shopping nearby, and are often within walking distance of mass transit. RioCan has dozens of properties they're looking to redevelop in this way over the next few years.

The shopping mall itself is also evolving. Tenants like dentists, eye doctors, and mortgage brokers are starting to snap up the empty space, knowing they can benefit from the foot traffic. These types of businesses have much better margins than traditional retail shops, which means they're better equipped to pay a premium for the location.

Although the way we buy things is changing, shopping malls and retail developments aren't going away anytime soon. Investors in Smart REIT and RioCan should be able to look forward to collecting their 5+% dividends for years to come without any worry at all.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:REI.UN (RioCan Real Estate Investment Trust)

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