Is Online Shopping About to Kill RioCan Real Estate Investment Trust?

Description

These days, particularly if you're under 40, chances are that you've bought at least a few items online. If you're anything like me, the majority of what you buy is done in the comfort of your home.

There are many advantages to buying stuff online. You don't have to venture out and brave the crowds. You can easily compare prices. And if you live in a rural area without much selection, virtually any item you could ever want is at your fingertips.

To put it in a nutshell, ordering online is more convenient and cheaper than going to the store. No wonder consumers like it so much.

This trend is something investors have to keep an eye on for a number of reasons. If you're looking to buy a retail stock that doesn't have much of a moat and that competes directly with **Amazon,** chances are that's not going to work out so well in the long term.

Investors of REITs should also be keeping a close eye on this trend. Many of Canada's largest REITs have at least some exposure to shopping malls. Even the office or industrial REITs have indirect exposure to the sector, since many of their biggest clients tend to be retailers.

Let's take a closer look at the largest retail REIT, **RioCan Real Estate Investment Trust** (TSX:REI.UN), and see just how vulnerable it is to this oncoming trend.

Tenant breakdown

There are certain types of retailers that are less at risk to online competition than others.

Take the grocery business as an example. Right now in Canada, the ability to order groceries online is virtually nonexistent. There's plenty of talk about Canada's grocers working on implementing such a system, but those solutions tend to involve going to the store to pick up the order anyway. And Canada's lack of population density makes the economics of delivering groceries less appealing.

RioCan's largest tenant is **Loblaws**, followed by **Canadian Tire**, **Wal-Mart**, **Cineplex**, and **Metro**.

These are not the kinds of businesses I associate with pressure from online-only retailers. These are some of Canada's finest retailers, businesses that have proven their staying power.

The other thing helping out owners of retail space is that foot traffic attracts other businesses. Businesses such as optometrists, dentists, and real estate brokerages all are moving into shopping malls, because they know the extra exposure will more than make up for an increase in rent.

New developments

RioCan is also doing something specific to try to diversify away from the world of retail.

The company has begun an ambitious new project to redevelop some of its older and smaller properties. Management plans to take these old strip malls–which were bought back in the 1990s–and redevelop them into something with retail space on the bottom and a condo tower above it.

Because the land was bought so cheaply, this brings development costs down significantly. This enables RioCan to build these new multi-use facilities for less than what other developers might pay. Management can then decide whether they want to keep the new condo tower and rent it out or to sell each unit individually to buyers.

RioCan has 15 of these projects either on the go or planned with the potential to eventually add more. Management is keeping quiet about how much this could add to the bottom line, but it could definitely make a difference.

Most importantly for dividend investors, any big boost to the bottom line would up the income potential. RioCan shares currently yield 5.6%, one of the more attractive dividends out there. Any increase in funds from operations would support a higher dividend.

In short, RioCan is in very little danger from online shopping. Perhaps in time the whole retail real estate sector will slowly start to decline, but as of right now there's still plenty of potential for RioCan.

CATEGORY

1. Dividend Stocks
2. Investing

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

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