

The Death of the Shopping Mall Has Been Greatly Exaggerated

Description

Because I was apparently a glutton for punishment, I decided to venture into a shopping mall right before Christmas. More than one, actually.

It wasn't a lot of fun. It took more than five minutes just to find a parking spot, a place I just barely acquired ahead of a half dozen other cars. If looks could kill, I'd at least have a skinned knee.

Inside the mall was no better. Popular stores were absolutely packed; some even had security to ensure they didn't surpass the fire code-mandated limit of how many people could be inside. Even not-so-popular stores were still busy. And I don't even want to talk about public areas like the kids' play spot or the food court.

All in all, it made me recommit to buying my gifts online next year. What a disaster.

How this impacts our portfolios

All throughout the year, we heard a common refrain: the shopping mall is dying, and there's nothing we can do to stop the trend.

I've certainly become a buying-online aficionado. I can easily compare prices and reviews without a pushy salesperson trying to convince me to buy the extra warranty. Websites desperate to gain market share often try to undercut each other, leading to terrific prices.

And best of all, I can get these items delivered to my front door for free. It doesn't get much better than that.

But at the same time, there are downfalls to buying stuff online. You have to wait to get it. Big-box stores have made picking up multiple items quick and convenient. And as a friend can attest, waiting for shipping right before Christmas can be incredibly stressful. What if it doesn't arrive in time?

This friend swore that next year she's buying her presents the old-fashioned way. She's not alone either. I saw first hand just how popular the shopping mall still is, and not just with older people. I saw plenty of people under 40 shopping for gifts like we all did 20 years ago.

In short, I sure wouldn't hesitate to buy a REIT that owns malls.

Two top choices

There are several Canadian REITs that have a large portion of their assets in retail space. Here are two I particularly like.

The first is **Smart REIT** ([TSX:SRU.UN](#)), which owns approximately 150 locations across Canada, most of which are anchored by **Wal-Mart** stores. Smart gets 27% of its revenue from the Arkansas-based

giant.

This relationship with Wal-Mart is a good one. Having the world's largest retailer as an anchor tenant helps attract both foot traffic and other tenants, even retailers who compete directly. Smart's portfolio is also quite new with an average building age of approximately a decade.

Thanks to a recent sell-off, Smart shares currently pay a 5.3% dividend. Today is a good entry point for a fine company.

Another attractive retail REIT is **Plaza Retail REIT** ([TSX:PLZ.UN](#)), a small-cap owner and developer of property across Canada with most holdings in Ontario, Quebec, and the Atlantic provinces. In total, Plaza owns more than 5.3 million net square feet of gross leasable space.

The company has been a growth machine during its 14 years as a publicly traded stock. It started paying a distribution of \$0.08 per share in 2003. These days, the payout is \$0.27 per share, which is good enough for a 5.2% yield.

Investors don't have to worry about the dividend. The company has a payout ratio of approximately 80% of funds from operations, which is about average for the sector. It also has more than 1.6 million square feet of developments either in the planning stages or that are currently being built—growth which should boost the bottom line over the next few years.

The bottom line

Some investors are avoiding retail REITs altogether, convinced that the death of physical stores is upon us. Nothing could be further from the truth.

Investors should have no problem buying solid operators like Smart REIT or Plaza Retail REIT. Both have a great tradition of growth behind them, along with solid dividends that should provide good income for years to come. It's that simple.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:PLZ.UN (Plaza Retail REIT)
2. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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