



Canadian Investors: Should You Worry About the Death of the Shopping Mall?

Description

The retail industry's struggles are increasingly making headlines.

In the last week alone, **Sears Holdings** indicated to investors it may have difficulty continuing as a going concern, **Payless Shoes** has been heavily rumoured to be working out the details of its bankruptcy filing, and **GameStop** shares fell nearly 14% on weak holiday sales' numbers.

Amazon.com, meanwhile, trades at just 2% under its all-time high and at 172 times trailing earnings. It's obvious where the market thinks retail is heading.

Many investors have vowed to never touch retail again, convinced the sector is destined to die a very slow death. Some have gone as far as including any retail real estate as part of their ban. It's hard to argue with that logic.

But at the same time, the Canadian shopping mall sector is hardly on its knees. These operators have done a great job adapting to a new world.

Moving beyond retail

A number of things have helped Canadian malls thrive as U.S. malls continue to languish.

The first factor is that we simply don't have as many malls in the first place. The United States features 23.6 square feet of enclosed retail space per capita. This is the largest ratio in the world. Canada is well behind the U.S. with 16.7 square feet per capita.

Canada's malls have also done a nice job evolving from pure shopping centres to more of an entertainment destination. They're filled with things like restaurants, movie theatres, and giant food courts. Many have invested in kids' play areas. And we've all seen traditional stores being replaced by things like high-end hair salons, dentists, and chiropractors.

This trend will likely continue. Think about all the advantages a medical office has if it locates in a mall. There's plenty of parking. Mass transit options are a nice perk for both employees and customers.

Plenty of mall traffic also ensures a steady stream of walk-in customers.

There's also the eye test. It's admittedly a little imperfect to take my experience and extrapolate it for all of Canada, but thousands of Canadians agree. When I go to malls in Calgary, they're busy. Folks in Toronto, Vancouver, and Montreal are saying the same thing.

Get paid to own the mall

Now that we've established Canadian malls aren't about to be abandoned en masse, we can look at them as an attractive investment option.

One of Canada's largest owners of retail property is **Smart REIT** ([TSX:SRU.UN](#)), which has partnered with **Wal-Mart** to be one of its main landlords here in Canada. Smart owns 150 properties across Canada with the majority in Ontario. Approximately 70% are anchored or shadow anchored by a Wal-Mart. The behemoth from Arkansas accounts for just under 30% of Smart's revenue.

Smart's relationship with Wal-Mart is a huge plus. The world's largest retailer attracts mountains of foot traffic. Other stores — even ones that compete directly with Wal-Mart — are attracted to this. It's the main reason why Smart has an occupancy ratio over 98%, which is far higher than any of its peers.

Smart also pays a 5.2% dividend and has raised its payout each of the last three years.

Another interesting REIT with exposure to shopping malls is **Morguard Real Estate Inv.** ([TSX:MRT.UN](#)). Although it's not a pure play on malls, approximately five million of the REIT's 8.5 million square feet of gross leasable space is retail.

Morguard REIT trades at a substantial discount to its book value, pays an attractive 6.1% yield, and should benefit from Alberta's economy getting stronger. Much of its retail assets are located in the province.

The bottom line

Many of Canada's retail REITs have provided a steady stream of income to investors for years now. Even though the internet is changing the retail landscape as we know it, Canada's shopping malls are doing a nice job adapting. This will ensure investors can count on those attractive dividends for many more years to come.

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2. Investing

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