Are Shopping Centre REITs Dying?

Description

Many investors are fearful of shopping centre REITs because they believe brick-and-mortar stores will soon be a relic of the past. The rise of e-commerce has slowed sales at physical stores, but does that mean shopping centre REITs are a risky play?

In a piece titled “Are We Witnessing the Death of Retail?”, Fool.ca contributor Matt Smith said he believes that brick-and-mortar retailers are facing a considerable amount of pressure, which is expected to increase over the next few years as more companies transition to e-commerce platforms.

Mr. Smith stated that analysts are predicting that e-commerce sales will jump by 40% between now and 2019. This will definitely come at the expense of brick-and-mortar retail stores, but will this mean many vacancies in shopping centres over the next few years?

Consider **Smart REIT** (TSX:SRU.UN), a well-run shopping centre REIT that owns approximately 31.5 million square feet worth of leasable space and has 3,100 tenants. The company has 108 **Wal-Mart Stores, Inc.** (NYSE:WMT) anchored shopping centres.

Wal-Mart stores are a huge driver of traffic, but even Wal-Mart is experiencing the pressure lately thanks to the rising threat of e-commerce. However, I don’t think Wal-Mart is going to shut down stores across the country anytime soon.

Most of Smart REIT’s tenants are resilient companies that are likely to stay in business over the next decade and beyond, even with the pressure brought forth by the rise of e-commerce. Such resilient stores include grocery stores, hardware stores, drugstores, fast-food restaurants, banks, health clubs, dollar stores, and movie theatres.

These kinds of businesses aren’t going anywhere soon, even if e-commerce continues its impressive rise. Businesses like **Canadian Tire Corporation Limited** or **Cineplex Inc.** require physical locations, and the rise of e-commerce isn’t really a threat.

There are some other types of stores which may be vulnerable to the rise of e-commerce. These susceptible companies could potentially close stores sometime over the next decade. Such companies include fashion retail, health food, office supply, and electronic stores. The stocks of many of these businesses are struggling right now, so it's important to consider the risks associated with these tenants (think stores like **Staples Inc.** or **Sears Canada Inc.;** both are having difficulty thriving in the current retail environment).

It's important to consider the type of stores that are the tenants of the shopping centre REITs. Are they businesses that are struggling because of rising e-commerce pressures? Or are the businesses thriving regardless of what's happening in the e-commerce world?

In the case of Smart REIT, a majority of its tenants are businesses that are unlikely to lose huge amounts of business to e-commerce platforms, so I think it is one of the smarter shopping centre REIT plays out there. The downfall of brick-and-mortar retail stores is real, but that doesn't mean you should scratch shopping centre REITs off your radar.

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