Why Shopping Malls Might Look Much Different in the Years to Come

Description

As the retail sector continues to struggle, with online competition and many stores going out of business, there is less demand for retail space. In many malls across the country, there are vacant spaces that have been left empty after the departures of **Target Corporation** and Sears Canada.

The challenge has been filling these spaces with big stores, which hasn't been easy. That's why **RioCan Real Estate Investment Trust** (TSX:REI.UN) is turning to condos and apartments, especially in cities like Toronto, where home prices have been rising, and it has been increasingly difficult for prospective home buyers to find an affordable place to live.

Vancouver has also had a housing problem for years, and there's no end in sight. RioCan CEO Ron Sonshine stated that "the population is growing, and there's no real land left."

In response, RioCan has developed ePlace, which will have 1,100 apartments and condominiums in addition to office space. The results have been encouraging so far: all of the condos at ePlace have already been sold ahead of their expected completion in 2019.

Are traditional malls a thing of the past?

The success of ePlace suggests that RioCan may be on to something, and that could help give REITs more creative solutions to vacancy issues. Although it is by no means a short-term solution, in the long term we might see a completely different development when it comes to shopping malls.

Cadillac Fairview, which owns several malls, is spending close to $2 billion on five of its shopping centres (including one that is in development) in order to add residential units to the locations.

By adding residential units and making centres mixed-use, it puts less pressure on landlords to find retailers, and we could see malls actually shrink.

With not a lot of big retailers in Canada that require a significant square footage to operate, many malls have struggled to find replacements for big vacancies. Target left a few years ago, and there are still many malls that have failed to find new tenants.

Retail is becoming a dangerous place to invest in, and REITs are taking note of that, and splitting up the space into other uses will minimize the risk.

Rising minimum wages and interest rates could put even more retailers in jeopardy.

What this means for investors

In 2017, REITs have had a tough year. RioCan's share price dropped 6%, while **SmartCentres Real Estate Investment Trst** (TSX:SRU.UN) has declined 4%, and **Canadian REIT** (TSX:REF.UN) has produced flat returns.

It could be a great opportunity to buy low, especially as we're starting to see more creative solutions to vacancy-related issues that have plagued many REITs. RioCan also pays investors a solid monthly dividend.

As occupancy rates and profits rise, so too will stock prices. With multiple high-profile departures from the retail industry and possibly more to come, coupled with rising interest rates, REITs have struggled to convince investors to buy.

However, that could change in 2018, as we see landlords shift their focus away from trying to find retailers to fill vacancies and instead look to redevelop the spaces altogether.

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