



Hudson's Bay Co.: Buy for the Real Estate

Description

Being an investor in a company that appears to be on a constant downward spiral can be a frustrating prospect. And yet, that's the situation when it comes to **Hudson's Bay Co.** (TSX:HBC). Year-to-date, the stock has given up 17% and investors are unsure where that drop is going to end.

The big driver of the stock price decline is that it's a retail company. Investors are concerned that the retail sector is declining, so they're moving away from any company focused on that space.

Hudson's Bay hasn't been doing all that well from a retail perspective; indeed, it's struggling to make money on that front. Investor concern is therefore warranted.

So why, then, am I excited about Hudson's Bay?

[Because not only does Hudson's Bay run a series of retail brands, but it also owns the buildings that those stores operate from. And that real estate has significant value.](#)

According to Land & Buildings, a Connecticut-based hedge fund, the net asset value of Hudson's Bay real estate is upwards of \$35 per share. With shares under \$10 right now, it's easy to understand why the hedge fund purchased close to 5% of the company.

There's just one problem ...

Hudson's Bay needs to figure out how to extract that value. One approach is to spin the real estate out into a separate business, which is a distinct possibility. Hudson's Bay hired the former CFO from **Empire Company**, who helped repackaged its physical locations as a REIT in 2006.

Hudson's Bay investors would then receive shares of that REIT, which they could either sell or hold onto. Land & Buildings would likely dump their shares in Hudson's Bay and simply hold the REIT, as that's their focus.

There's just one problem with this approach. Part of the reason the real estate has value is that Hudson's Bay has its stores in them. If you're ignoring the retail side of Hudson's Bay and merely

focusing on the real estate, your investment could still fall into ruin because the retail business could collapse.

Hudson's Bay has a creative approach to this, however. It [sold the Lord & Taylor building](#) between 38th and 39th street to WeWork Cos. Inc. and Rhone Capital LLC for US\$850 million. It is then leasing back some space to operate its store, but with a smaller footprint.

This is a win for two reasons. First, the all-in investment for Lord & Taylor was a little over US\$1.6 billion when accounting for the purchase price and debt back in 2006. Therefore, getting half of that back for the sale of one building is incredibly lucrative. Second, WeWork employees and customers will now walk past Lord & Taylor on a regular basis, which creates an opportunity for drive-by shopping.

Ultimately, I expect to see Hudson's Bay do this with other locations. It will either sell like it did with WeWork or it'll make the properties multi-purpose, such as adding residential space above the retail, which could add even more customers to its retail business.

Real estate is the play here. Hudson's Bay may not be the perfect company given the retail space, but there's a great opportunity here.

CATEGORY

1. Investing

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date

2025/08/24

Date Created

2018/03/15

Author

jaycodon

default watermark