

## Why it May Be Time to Place a Contrarian Bet on Malls

### Description

It's been complete carnage in the brick-and-mortar retail scene, with many good old-fashioned firms like Toys "R" Us USA closing up shop due to mounting pressures from the rise of online retailers like **Amazon.com, Inc.** ([NASDAQ:AMZN](#)). Over the next decade, it's likely that more of the brick-and-mortar retailers that we grew up with will also be going belly up, a scenario that has many analysts calling for the inevitable "death to the shopping mall."

In Canada, however, shopping malls are still quite lively when compared to your average mall located south of the border. Toys "R" Us Canada is still alive and well and so, too, are many good old-fashioned retailers that thrived alongside their digital counterparts.

While the situation may not appear as gloomy as it is in the U.S., not everything's peachy, especially among department stores, many of which have lost their lustre in the modern era. Such old-fashioned retailers that refuse to adapt in order to drive store traffic will likely be phased out over the years; however, they will be replaced by more resilient tenants that are better suited to the rapidly changing demands of customers.

### The bull case for shopping malls in the age of digital retail

The sentiment over shopping malls is extremely bearish these days; while they appear to be on a secular decline, some contrarians think that now is an opportune time to buy into malls. A hedge fund called Metacapital Management believes that the shopping mall short thesis is flawed and that there's a major difference between malls and brick-and-mortar retailers.

"Shorting commercial real estate is not the same as shorting retailers. Store turnover and retailer demise is not a new phenomenon. Mall owners have shown the ability to repurpose malls by bringing in new retailers, increasing densification and repositioning the real estate for "family experience"-based facilities such as movie theatres, children play zones and restaurants," Metacapital says.

Billionaire investor [Bill Ackman](#) is also optimistic about the future of shopping mall, previously noting many reasons why they'll be around long after their lowest quality tenants go belly up. Ackman thinks that malls will become more of a place to "hang out" as new concepts gradually replace the deserted "big-box department stores."

At this point, I think mall fears are overblown, offering investors a compelling opportunity to initiate a contrarian position in retail REITs like **SmartCentres REIT** ([TSX:SRU.UN](#)), which already has high-quality retail tenants to begin with, so a sudden spike in vacancies is probably out of the question.

Over the next decade, some of its lower quality tenants like **Reitmans Canada Limited** (TSX:RET.A) may go belly up, but they'll probably be replaced with something far better. And that's actually a good thing in the grander scheme of things.

## Red-hot retailers still exist!

International brick-and-mortar retailers like Japan-based MUJI and Uniqlo have been drawing huge crowds at their newly opened Canadian locations. These red-hot brick-and-mortar players will drive an immense amount of traffic into malls as their Canadian presence grows over time.

These retailers have incredibly intriguing and exclusive quality products at reasonable prices. Over the next few years, as other retailers close up shop, keep an eye out for red-hot international players like MUJI or Uniqlo to take their place.

## Bottom line

It's a mistake to avoid all things mall-related just because their retailers face major headwinds. There are value opportunities out there for those willing to adopt a contrarian mindset.

SmartCentres currently offers a ~6% distribution yield, which is much safer than its stock chart would suggest. With the stock down ~25% from its high, investors really have nothing to fear when it comes to well-run retail REITs, except of course, fear itself.

Stay Foolish.

## CATEGORY

1. Dividend Stocks

## TICKERS GLOBAL

1. NASDAQ:AMZN (Amazon.com Inc.)
2. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

## PARTNER-FEEDS

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

## Category

1. Dividend Stocks

## Date

2025/08/18

## Date Created

2018/04/16

## Author

joefrenette

default watermark