Why Shopping Mall Stocks Could Be the Opportunity of the Decade

Description

If I were to ask you for examples of rapidly declining relics of yesteryear, you might point to examples such as landline phones, DVD sales, golf, coal-fired power, or newspapers. Sure, each of these industries still exist today, but they are all facing terminal decline. Some have simply fallen out of favour, while others have been replaced with new and improved standards.

Many people would also list the shopping mall as one of those businesses that will slowly go away. They point to **Amazon's** dominance as proof the traditional retail world will eventually die. Why go to a shopping mall and brave the crowds when you can get any product you could ever want delivered to your door?

Canada's largest owners of retail space actually see things much differently. They see a massive opportunity in shopping malls, and they're investing billions to take advantage of it.

The opportunity

Brookfield Property Partners (TSX:BPY.UN)(NASDAQ:BPY) recently spent US$15 billion to acquire General Growth Properties, which primarily owns top shopping malls in the United States.

The long-term plan with these assets is as simple as it is powerful. The smart folks in charge of Brookfield have figured out shopping malls and apartments go hand in hand. Thus, there's a massive opportunity to develop high-density residential property on these sites.

Retailers get the advantage of having a built-in customer base living just a few short steps away. Residents get the convenience of being able to pick up a few things on their way home from work without making an extra stop. Malls also offer residents many eating choices and close proximity to public transportation, among other advantages.

Brookfield Property Partners also plans to redevelop many of its new malls, sprucing them up and replacing some retail space with more entertainment and eating options. It anticipates yields on these new investments will be 7-8%.

More opportunities

Canada's largest retail owners also have big development plans with their existing space.

RioCan Real Estate Investment Trust (TSX:REI.UN) has spent years preparing for this opportunity. It sold off non-core assets in Canada and its entire U.S. portfolio. That cash was then used to pay off debt, giving the company the balance sheet flexibility to pursue redevelopment opportunities.

One example of a planned project is The Well, an ambitious development in downtown Toronto that is slated to be fully complete in 2023. The Well will feature 500,000 square feet of retail space, 1.1 million square feet of office space, and some 1,800 residential units spread out over six different buildings.

The Well is just one example of RioCan's push into other types of real estate. RioCan hopes to add 10,000 residential units in the next decade, focusing on Canada's largest cities.

Crombie Real Estate Investment Trust (TSX:CRR.UN), which primarily owns retail properties anchored by a Sobeys or Safeway store, is also getting into the mixed-use business. The company has identified 23 mixed-use development opportunities, which would encompass almost 900,000 square feet of commercial space and 8.6 million square feet of residential units.

One example is the Davie Street redevelopment in Vancouver. Originally the site of a 32,000-square-foot Safeway store, Crombie is currently adding retail space to the base and adding some 330 apartments above for a total bill of $180 million. It will retain 50% ownership of the residential space.

The bottom line

All three of these companies have barely scratched the surface of potential redevelopment opportunity. They are all sitting on great real estate located in both Canada's and the United States's top markets. Adding residential units will not only result in increased cash flows, but it'll also help protect the value of the retail assets. Investors should be paying attention to this trend.

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Date
2025/08/17
Date Created
2018/10/17

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