This REIT Has a Gloomy Forecast for Retail: How it’s Changing its Strategy

Description

RioCan (TSX:REI.UN) is one of the largest REITs on the TSX, and its portfolio has many different types of spaces, but one that it is not particularly excited about is retail. A year ago, we learned about how the company was looking to make changes to the layout of existing shopping malls and to be less dependent on retail tenants, which have not proven to be stable over the years.

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With Sears closing out, **Target** leaving Canada after a very brief stint, and Toys “R” Us closing up shop in the U.S., there have been some big-name retailers that have been hitting the exits lately in one way or another. It’s unsurprising then that REITs haven’t done very well lately and why RioCan stock has been down over 3% this year.

Change in strategy

Despite showing a lot of consistency it in its top and bottom lines, RioCan could be exposed if the retail sector continues to struggle. For that reason, it’s important that the company moves away from that risk as much as possible, and that’s why the company is looking to adjust its strategy.

RioCan CEO Edward Sonshine wants to add rental properties and change the company’s portfolio mix. He’s keenly focused on the rental market, which he believes is destined to grow. In a recent interview, he stated, “The population of big cities continues to grow. We look at it as, the rental market has nowhere to go but be good.” He also offered a very dark expectation for the world of retail: “There is no question in my mind that the demand for retail space over the next five to 10 years will not grow.”

While it may seem like a grim outlook, it’s hard to imagine the opposite happening. After all, with online shopping on the rise, and consumers showing a preference for delivery options, the demand for having an in-store experience is clearly on the decline. Although malls are still crowded with people on busy shopping days, whether it’s enough and sustainable over the next decade is a big question mark, especially if there are any more big departures that happen in the industry.

It’s a risk that RioCan doesn’t want to take a wait-and-see approach on, and it’s hard to blame the company, especially given how promising the rental market could be in a time when it’s difficult and expensive to buy a new home.

Bottom line

Companies that don’t adapt are in danger of falling behind, and RioCan is simply preparing itself for more difficult times ahead in the world of retail. As the economy evolves, so too do REITs in adjusting to what will be in demand in the years to come, and retail is not likely going to be a big part of that growth.

RioCan shows strong leadership and vision through this strategy, and that makes it an appealing long-term buy. Although it may have been struggling lately, it’s a solid value buy that could offer investors a lot of growth, especially if it is able to cash in on a growing rental market.

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