Coronavirus Will Accelerate the Retail Apocalypse

Description

The retail apocalypse has created considerable pressure for retail real estate investment trusts (REITs) over the last four years. The rapid uptake of online shopping has triggered a calamity of epic proportions for traditional bricks and mortar stores. The fallout is sharply impacting shopping mall owners and retail REITs.

Bankruptcies gaining momentum

The volume of retail bankruptcies has been accelerating. Industry consultancy CB Insights claims there were 23 retail bankruptcies in 2019. That was five more than a year earlier. The sharp decline in bricks and mortar retailing was first to hit retail REITs hard. Then Trump's approach to tariffs and the trade war against China caused the retail apocalypse to accelerate.

There are signs of further strife ahead for the traditional retail industry. There are fears that the coronavirus pandemic could wipe out remaining bricks and mortar retailers, aside from major grocery stores. That would have a significant impact on retail REITs.

Two of the largest U.S. retail REITs, **CBL & Associates** and **Washington Prime**, are on the verge of collapse. They have both lost around 70% of their market value since the start of 2020 and the market is pricing them for bankruptcy.

Canada's bricks and mortar retailers, as well as shopping malls, have proven more resilient. Two of Canada's largest retail REITs, **Choice Properties** (TSX:CHP.UN) and **RioCan**, have not experienced the sharp losses of many U.S. REITs over the last month, only losing 23%.

Poor short-term outlook

Measures to contain the coronavirus will sharply impact domestic retailers and retail REITs, as will the ensuing recession. However, such measures will have minimal impact on online retailers. In fact, their popularity will soar because of consumers being able to comply with restrictions on movement while shopping from the comfort of their homes.

Since the start of 2020, 10 retailers in Canada have either announced store closures or sought bankruptcy protection. The coronavirus is also wreaking havoc on retail supply chains because of a manufacturing slowdown in China, further adding to the woes of bricks and mortar retailers.

Measures to slow transmission and contain outbreaks, including travel restrictions, curfews, social distancing, and the closure of large venues such as shopping malls, will impact earnings. That will lead to further store closures and bankruptcies. This will lead to lower occupancy rates, rental income and earnings for retail REITs.

Choice**,** which has 576 retail locations in its 726-property portfolio, finished 2019 with an impressive 97.7% occupancy rate. It also reported a shocking $581 million annual loss. The loss can be attributed to fair value adjustments to Choice's assets rather than a decline in its performance. This is evident from annual 2019 rental revenue growing by 14% year over year to $1.4 billion, and adjusted funds from operations gaining 18% to $588 million.

Looking ahead

Around 56% of Choice's gross rental revenue is generated by floorspace leased to grocery chain **Loblaw**. Another 0.6% is earned from Sobey's, Canada's second-largest food retailer after Loblaw. Consumer staples such as groceries and liquor are resilient to economic slumps. They have also proven resistant to the retail apocalypse sparked by the rise of online shopping and **Amazon.com**.

Budget retailer **Dollarama** is responsible for 0.8% of Choice's rental revenue. Dollar stores have also proven resistant to the retail apocalypse and economic downturns. A combination of low margins and high sales volumes makes the goods they sell unattractive for online retailers. During recessions, consumers become more budget conscious. That will see many looking for cheaper alternatives when making purchases, causing the popularity of dollar retailers to rise.

For these reasons, Choice's operations will likely prove resilient to the coronavirus pandemic and ensuing recession. There is, however, a difficult road ahead for many retail REITs. They will take a material hit to earnings over coming months which will impact their share prices.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. TSX:CHP.UN (Choice Properties Real Estate Investment Trust)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise

5. Yahoo CA

Category

1. Coronavirus
2. Investing

Date
2025/07/03
Date Created
2020/03/27
Author
mattdsmith