

BROOKFIELD PROPERTY PARTNERS L.P. (NASDAQ: BPY, TSX: BPY.UN)



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(as at May 31, 2020)

Business Description:

Brookfield Property Partners L.P. (“BPY”) is a diversified global real estate company that owns, operates and develops one of the largest portfolios of office, retail, multifamily, industrial, hospitality, triple net lease, self-storage, student housing and manufactured housing assets. Its investment objective is to generate attractive long-term returns on equity of 12%–15% based on current cash flows, asset appreciation and targeted annual distribution growth of 5%–8%. The company was established by Brookfield Asset Management Inc. (“BAM”) as its primary vehicle to make investments across all strategies in real estate. Its goal is to be a leading global owner and operator of high-quality real estate assets that generates sustainable and growing distributions to unitholders and capital appreciation of its asset base over the long term.

Investment Thesis:

- **High Quality Assets:** BPY owns one of the highest quality portfolio of real estate assets in the world, including First Canadian Place in Toronto, Brookfield Place in New York and Canary Wharf in London.
- **Owner-Operators:** BPY has over 120 combined years of owner-operator experience for real assets, allowing the team to bring deep operational experience to its portfolio companies.
- **Generating Satisfactory Returns:** BPY seeks to maintain investment grade credit metrics on each property and redeploying capital generated from refinancing. In addition, it sells mature assets where value has been maximized and recycles those proceeds into value-creative opportunities (it targets \$1-2 billion per year in recycled cash deployment). These two strategies have allowed it to generate 10-12% total return on investments in the past and management believes this is attainable in the future.
- **Sustainability:** Brookfield Property Partners pursues sustainability objectives across its entire portfolio. These include:
 - Energy reduction
 - Water conservation
 - Recycling
 - Enhanced indoor air quality
 - Alternative transportation parking
 - Green cleaning supplies

The company’s retail business is among the highest users of solar power in the United States and the firm continues to support new green initiatives as a core pillar of its operating strategy.
- **Backing from Brookfield Asset Management:** BAM owns 50% of the shares outstanding of BPY. BAM is aligned with common shareholders, as its stake in BPY is worth roughly \$4.5 billion. Moreover, BAM is incentivised to grow the value of BPY as BAM generates fee revenue based on the market capitalization of BPY.
- **Self-Funding Business Model:** With the scale of BPY’s stabilized portfolio and flexibility of its balance sheet, its business model is self-funding and does not require the company to access capital markets to fund its continued growth.

- **Global Advantages:** BPY’s teams in each of the regions that it targets have developed strong local relationships and partnerships. Through these local networks, it originates proprietary transactions that are generally priced at more favourable valuations than competitive processes.

Industry Growth/Drivers:

- **Low Interest Rates:** As interest rates fall, real estate becomes more attractive as an asset class due to its higher yields and stable cash flows. Management believes that the value of their real estate will increase over time, as global interest rates hit record lows and have turned negative in many countries across the globe. BPY believes that it could generate an internal rate of return north of 24% in a prolonged low interest rate environment.
- As investors search for yield in a low interest rate environment, alternative investments such as BPY appear increasingly attractive.
- **Urbanization:** The trend of urbanization will continue to benefit BPY’s multifamily investment portfolio. It owns some of the most attractive multifamily properties in the world in core urban areas including Toronto, New York and London.
- **Future Growth Opportunities:** As of 2019, BPY has approximately 12 million square feet of active development projects underway with another 6 million square feet in planning stages.

Major Competitors:

Allied Property Real Estate Investment Trust, Boston Properties, Inc., First Capital Realty Inc., Killam Apartment Real Estate Investment Trust, SL Green Realty Corp., Simon Property Group, Inc.

Barriers to Entry:

- **Large Capital Requirements:** BPY’s portfolio of real estate assets contains some of the most high-quality real estate in the world. To purchase these assets would require significant financial backing – BPY is backed by one of the world’s largest asset managers, BAM.
- **Management Expertise:** In order to acquire assets at valuations comparable to what BPY can purchase them at, a new entrant would need a global deal team and deep industry connections which would take years to replicate.

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Financial Summary:

Income Statement (USD millions, years ended December 31st)

	2015	2016	2017	2018	2019
Revenue	4,532	5,236	5,901	7,087	7,859
COGS	2,183	2,430	2,696	3,087	3,186
Gross Profit	2,349	2,806	3,205	4,000	4,673
Net Profit	2,914	1,793	375	1,978	1,956
Earnings per Share	3.72	2.30	0.48	2.28	1.89

Balance Sheet

Total Assets	72,245	78,433	84,689	122,520	111,643
Long-Term Debt	21,976	28,423	30,749	57,942	46,583
Total Equity	30,933	34,161	35,124	46,740	44,935

Statement of Cash Flow

Cash Flows from Operations	590	745	639	1,357	624
Cash Flows from Investing	(4,247)	(3,380)	(2,366)	(5,226)	(194)
Cash Flows from Financing	3,491	3,052	1,728	5,693	(2,309)
Dividends paid	(276)	(293)	(301)	(410)	(573)

Key Ratios and Figures (%)

Gross profit margin	51.8%	53.6%	54.3%	56.4%	59.5%
Return on assets	4.0%	2.3%	0.4%	1.6%	1.8%
Long-term debt / equity	71.0%	83.2%	87.5%	124.0%	103.7%

Source: MorningStar



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