



My First Buy After the Brexit Vote

Description

I bought units of **Brookfield Property Partners LP** ([TSX:BPY.UN](https://www.bse.com/quote/BSE:BPY))(NYSE:BPY) on Monday. At the close of Monday the units were 7.9% lower than Thursday. Most of the downward action happened in two trading days after the British voted to leave the European Union.

Can Brookfield Property decline more? It's certainly possible with the volatility triggered by the Brexit. But here's why I like the company today.

The business

Brookfield Property owns, develops, and operates a global, diversified, best-in-class real estate portfolio. At the end of March, its portfolio consisted of 153 premier office assets totaling 101 million square feet, 128 quality retail properties totaling 126 million square feet, and 8.5 million square feet of office and multifamily development projects.

About 85% of its portfolio is comprised of trophy assets that generate stable cash flows with growth and capital appreciation. Brookfield Property targets total returns of 10-12% for this portfolio.

About 15% of its balance sheet consists of quality assets that the company targets total returns of 20%. These include multifamily, industrial, hospitality, triple net lease, and self-storage assets.

Growing distribution

Since Brookfield Property was spun off from **Brookfield Asset Management Inc.** in 2013, it has increased its distribution for three consecutive years.

Its last distribution hike was in the first quarter when it hiked its distribution at an annualized rate of almost 5.7%.

Brookfield Property pays a U.S. dollar-denominated distribution. Based on the current exchange rate between the U.S. dollar and the Canadian dollar, Brookfield Property yields almost 5.1%.

Based on a more conservative exchange rate of US\$1 to CAD\$1.25, Brookfield Property yields 4.8% at \$29.10 per unit.

The company targets a funds from operations payout ratio of 80% and aims to increase its distribution by 5-8% per year.

Proven investing approach

Brookfield Property invests with a value and counter-cyclical approach. It invests in high-quality assets at a discount to replacement cost. Because it invests in a global setting, it can allocate capital in places with the best risk-adjusted returns.

Conclusion

Brookfield Property retreated about 8% in a few days because it has 20% of its invested capital in Europe. However, investors should note that it has 68% of its invested capital in North America, which should add stability to its cash flow generation.

Its 2016 estimated book value per unit is US\$32.88, which implies at US\$22.20 per unit, the units are trading at a discount of about 30% from its book value.

Brookfield Property has an investment horizon of 10-12 years for its core office and retail portfolio. That's the kind of investment mentality unitholders should have when investing in the company.

Brookfield Property is a good value today, and that's why I'm buying some in my RRSP after it pulled back about 8%. (Note that typical market returns are 7-10%.)

I'm not trying to catch the bottom; instead I'm averaging into a long-term position at attractive valuations. If the company falls lower, I can buy more over time.

Let's not forget that Brookfield also offers a distribution of 5% that's expected to grow higher next year and beyond.

If Brookfield Property recovers to the Thursday trading level within a year, an investment today would result in an estimated return of about 13%.

If the company grows its distribution at the low end of its target growth rate, its estimated total return will be 10%. So, when buying units today, investors can expect pre-tax returns of 10-13%.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:BPY.UN (Brookfield Property Partners)

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