



## You Can Buy This Top-Tier Real Estate Stock for 70 Cents on the Dollar

### Description

Global real estate company **Brookfield Property Partners LP** ([TSX:BPY.UN](https://www.brookfieldproperty.com/real-estate/real-estate-stocks))(NYSE:BPY) firmly believes that its market value is well below the underlying value of its assets. In fact, the current equity value of its assets, according to International Financial Reporting Standards (IFRS), adds up to roughly \$31 per unit, which is approximately 30% below the current sub-\$22 trading price. Supporting that view is a growing list of evidence in the market suggesting that the company is highly undervalued.

### The public-private disconnect

One bit of evidence is that there is a big disconnect between what private investors are willing to pay for top-tier real estate assets and what the public market values these assets at. That is clear from comments by CEO Brian Kingston on the company's recent third-quarter conference call:

Private equity capital has been increasing its investment allocation to high-quality real estate assets, and in many cases, are willing to pay premiums for this type of stable investment with long-term contractual cash flows in place. Like the majority of our peers, these valuations have generally ... not translated into public markets.

As Kingston notes, the company continues to see private equity buyers bid up prices for high-quality real estate because investors want to own these assets. Driving the shift is the fact that commercial real estate offers bond-like security due to their long-term contracted cash flows, along with upside due to inflation-linked rental increases and property value appreciation.

That said, even though private equity is paying more for commercial real estate, public market investors have yet to catch on to this fundamental shift in the market. As a result, Brookfield Property Partners's units, as well as the equity values of many peers, are trading at tremendous discounts to the underlying value of the real estate assets. That is one reason why Brookfield has started to buy back its units, repurchasing nearly half a million during the third quarter, bringing its year-to-date repurchases to more than 1.1 million units.

## Recent transactions prove the point

To further demonstrate the underlying value of its assets, Brookfield has started to monetize some of its core real estate to harvest this private market premium.

During the third quarter, for example, the company completed the sale of One Shelley Street in Sydney for AUD\$525 million, which was actually 6% higher than the IFRS value of the asset. In addition to that, the company sold a fully leased office building in London at the IFRS value it established for that asset in the first quarter, resulting in a healthy gain in the two years since it bought that property. That timing is noteworthy because it means the Brexit vote has not hurt property values in London.

The company has completed similarly strong sales in its core retail portfolio as well as in its opportunistic multifamily portfolio. For example, it recently sold 31 multifamily assets for double the value of the company's initial investment in those assets in just four years.

Brookfield plans to continue to monetize assets next year to take advantage of the strong market for high-quality real estate assets. These sales should further prove the point that Brookfield Property Partners's equity in these assets is much higher than the value of its units.

## Investor takeaway

The market is giving investors a gift right now because they can buy prime real estate assets for about 70 cents on the dollar if they invest in Brookfield Property Partners. That discount will not last forever because Brookfield plans to continue selling assets at a premium to repurchase its discounted units until the market wakes up.

At some point, the market is going to realize that Brookfield is right and that its assets are worth far more than the value of the units, which could lead to some pretty substantial capital gains for investors that buy at the current price.

## CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

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

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