# Brookfield Property Partners L.P.: A Buy-and-Forget Income Stock

## Description

Gaining exposure to lucrative real estate around the world is an important way of diversifying your portfolio. Primarily, real estate investments are income plays due to the generated rent. One of the greatest opportunities in the market today is **Brookfield Property Partners L.P.** (TSX:BPY.UN )(NYSE:BPY), one of the subsidiaries of **Brookfield Asset Management Inc.**



Brookfield Property's core holdings, which generate the bulk of its funds from operations, are vast and international. Its core office portfolio consists of 142 locations totaling 99 million square feet. It also has 11 million square feet of core office and multifamily projects under development. It has core retail holdings with a 34% fully diluted interest in **GPP Inc.**, which has 127 retail properties totaling 125 million square feet throughout the United States. These core holdings account for 80% of the business.

Brookfield Property has opportunistic properties, which include multifamily units, industrial assets, hospitality (hotels), triple net lease, self-storage, and student housing. It looks at these opportunities as slightly higher risk but with the potential to generate much larger annual returns than the core holdings might. These opportunistic holdings account for 20% of the business.

Management expects Brookfield Property's core holdings to produce anywhere from 10% to 12% in total returns, whereas its opportunistic holdings are targeting 20% total returns.

How is the business doing? It's doing quite well. Brookfield Property's core office holdings had US$630 million of funds from operations (FFO) in 2016, which is up from US$160 million in 2015. Its core retail had FFO of US$459 million compared to US$451 million in 2015. Its big success, though, was the US$341 million in its opportunistic holdings — up from US$245 million. After corporate costs, the company's FFO was US$967 million for the year, which is up from US$839 million in 2015.

What makes Brookfield Property so appealing to me is not that it generates rent, but that it sells assets when they're fairly valued, so it can reinvest that money in new properties. For example, it sold the Moor Place office building in London for £271 million, generating net proceeds of £130 million. And it sold an 16% in One New York Plaza, generating net proceeds of US$75 million.

In turn, Brookfield Property has acquired many lucrative assets. A big acquisition was the mixed-use project in Seoul, South Korea, for US$2.1 billion (Brookfield Property's share was US$550 million). This consists of three office buildings, a retail mall, and a five-star hotel. And Brookfield Property contributed £18 million to a £72 million acquisition of two student-housing assets and numerous other assets.

All of this makes it possible for the company to experience incredible growth year after year. Management predicts the price of a share of Brookfield Property could be US$77 in 10 years based on yearly 8-11% FFO growth, plus yield growth of yearly 5-8% growth. Not to mention that management has been buying back shares because it trades at a significant discount to IFRS value.

Whether or not the markets will treat Brookfield Property fairly 10 years from now is unknown. However, what you get when you buy Brookfield Property is simple: a strong income-generating stock that pays US$0.295 (CAD$0.38) per quarter — up 5.4% since the board approved an increase in February. Further, its payout ratio has dropped to 82% from 90% back in 2014, which is close to its target. Ultimately, a lower payout ratio means it'll be able to consistently increase the dividend in line with cash flow.

I'm a big fan of Brookfield Property and see it has a great buy-and-forget income stock.

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