Brookfield Property Partners L.P. Raises Dividend: Should We Buy?

Description

When looking to build a real estate empire, there are a variety of opportunities and methods. You can invest in residential, retail, commercial real estate. If you decide that buying the properties directly is not for you, you'll likely seek out a REIT of some sort. These tend to focus on one type of real estate, though.

Or you can invest in **Brookfield Property Partners L.P.** (TSX:BPY.UN)(NYSE:BPY), which is technically not a REIT. By investing in Brookfield Property, you get exposure to all types of real estate versus the single-track focus that many individual REITs have.

Brookfield Property's investments are broken down into three types.

The first is its core portfolio of office properties, which is spread out all over the world in many major cities, including Toronto, New York, and London. And this is significant because, according to a presentation given at Brookfield's Investor Day, millennials are driving population growth in major cities. In 2014, 54% of the population was in cities with 3.9 billion people. By 2042, it's estimated that six billion people will be in cities — 67% of the world's population.

The second is its core retail investments through its 33% ownership stake in **General Growth Properties** (NYSE:GGP), a U.S.-based Class "A" mall operator. We'll come back to this, because it's big news for Brookfield.

The final portfolio is its opportunistic fund, which invests in anything else, including multi-family properties, hospitality, industrial, triple-net lease, self-storage, student housing, and manufactured housing. This portfolio ideally comes with a greater ROI, but that means greater risk.

As you can see, by investing in Brookfield Property, you get exposure to all of this real estate in one clean investment versus having to choose different REITs.

The big news regarding General Growth Properties is that Brookfield is trying to buy the remainder of the company. Brookfield Property offered US$23 per share, allowing GGP investors to receive either 0.97656 shares of BPY for every one GGP share or cash. The company values the deal at US$14.8

billion and expects to pay it out with 50/50 cash and stock.

This deal would result in a behemoth of a real estate company with nearly US$100 billion in real estate assets and annual net operating income of approximately US$5 billion. GGP is not interested in this deal and is fighting back. While the deal is a long shot, it demonstrates the strategy that Brookfield Property deploys.

Brookfield Property buys assets it believes are undervalued; it generates strong funds from operations; and if those assets become too expensive, Brookfield Property sells them.

For example, in Q4, Brookfield Property sold 49% of One Liberty Plaza, two office buildings in Washington D.C., six multifamily properties in the U.S., and 13 industrious properties. It then took the money and bought a 4.2-million-square-foot office portfolio in Mumbai, the Houston Center in Texas, two office properties in San Jose, a student-housing asset in the U.K., majority ownership in a multi-family property in Florida, and after the quarter, it bought other assets as well.

All this buying, operating, and selling has resulted in a strong business. It's so strong, in fact, that at the close of the quarter, management announced that it was increasing the dividend by 7% from US$0.295 to $0.315. This is in line with management's goal of boosting the yield by anywhere from 5% to 9% annually.

With all that said, should you buy Brookfield Property? The company had a rough 2017, and the GGP deal may not go through, which investors have mixed feelings about. But annual dividend increases and a current yield of 4.81% make me very intrigued by this company.

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