Why You Should Buy This Top-Tier Real Estate Stock Yielding 7%

Description

At first thought, when people think of investing in real estate, it's usually residential that comes to mind. The thought of owning assets such as retail or office space is not as appealing because they have more inherent risk, given their industries. Naturally, they aren't as defensive, especially in retail real estate, as e-commerce continues to grow around the world.

What can differentiate assets and make the industry worth investing in by creating more intrinsic value are high-quality assets that are one-of-a-kind structures. Moreover, malls that attract consumers because of the experiences they offer are better able to defend themselves against the switch to online shopping.

One company that has a massive global portfolio of high-quality assets, both retail and office space, is **Brookfield Property Partners** (TSX:BPY.UN)(NASDAQ:BPY).

Brookfield is a great way for investors to expose themselves to premium real estate assets operated by a world-class company. The stock has come off its 52-week highs recently, offering investors a prime opportunity to get their feet wet.

The fund launched in 2013 with about $31 billion in assets; today, the fund has grown to over $90 billion in assets. Its portfolio consists of 41% office, 42% retail, and 17% LP. The LP has multiple assets consisting of multifamily, logistics, self-storage, student housing, manufactured housing, and triple net lease assets.

It's a worldwide company operating some of the nicest real estate in Canada, the U.S, Germany, Brazil, England, and the Asia-Australia region.

As well as a purchaser of undervalued assets, Brookfield is also a developer. It has a number of new assets opening in 2019. The assets only add to Brookfield's high-quality portfolio, with new locations opening in Dubai, London, Manhattan, and more. Approximately 5.6 million square feet of premier office space will come on the market as well as nearly 3,500 apartment units.

Currently, Brookfield's occupancy is nearly 93% in the office portfolio, reflecting how strong the assets are. In total, the fund has 46 million square feet of leasable office space. The office portion does about $1.4 billion in net operating income (NOI).

The mall portfolio is even more impressive with an NOI-weighted total occupancy rate of 95%. The mall portfolio has 122 million retail square feet available and does about $1.7 billion in proportionate NOI.

The high-quality nature of its malls makes the investments interesting and reduce risk, as those types of shops and locations are more immune to the effect of online shopping, because they offer an experience on top of the products the retailers sell.

Additionally, a lot of the time e-commerce is driven by brick-and-mortar presence. A recent U.S. census said that 93% of all online shopping is owed at least in part due to a physical store presence.

What makes the fund such a compelling investment is the high-quality nature of its assets coupled with its operational excellence. It’s a part of the Brookfield family, which is known to make solid investments and acquisitions, grow the margin through smart upgrades and efficient operations, and improve financials through better capital management.

Earnings and distributions have been growing well and consistently. Cash flow from operations (CFFO) growth, compounded annually, has been 9%, and distributions have grown at a compounded annual rate of 6%. The difference in cash flow growth and distribution growth has allowed the company to reduce the CFFO payout ratio from 90% to its long-term target of 80%.

Brookfield is optimistic on its near-term future, targeting 7-9% annual CFFO growth. It expects that it will realize larger gains from the LP segment going forward. Regardless, the company has plenty of room to sustain dividends should earnings be less than expected. At current levels the dividend yields over 7%.

The bottom line is that Brookfield is one of the best operators in the business. The company has great assets, great management and solid capital discipline. The 7% dividend is the cherry on top of a high-value investment with years of growth ahead.

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