



Does This Real Estate-Focused Dividend-Growth Stock Belong in Your Portfolio?

Description

In a relatively benign, sleepy sort of news item in early October, it was reported that **Brookfield Property Partners** ([TSX:BPY.UN](https://www.brookfieldproperty.com/na/en/real-estate/property-partners))(NASDAQ:BPY) was looking to sell the iconic Diplomat Beach Resort. Nobody really paid attention to it, and life moved on, but my ears perked up. Any time a smart long-term investor like Brookfield Property Partners sells an asset, there are two things to understand.

First is the reason the property is being sold. Is it a strategic reason or opportunistic or a fire sale? Second, what price did Brookfield pay for it when it acquired the property, and what price did the company offload it at? All these things are real data points to know if Brookfield is doing what it tells us it will do, which is to buy low, sell high, and create shareholder value.

Now for a bit more insight on the Diplomat Beach Resort. Sit back, relax, and let me tell you why Brookfield Property Partners should be in every smart investor's portfolio.

Strategic seller meets a strategic buyer

In the world of heady M&A wheeling and dealing, there are a lot of reasons deals happen. But rarely do deals happen because of truly strategic reasons. This is where Brookfield consistently shines, and this is why it is a strong recommendation of mine as a [core holding for any long-term portfolio](#).

Operating hotels doesn't really seem like Brookfield's core competency, if I'm being honest. I believe they are much better owners and operators of office and retail properties. Hotels require a very specific mindset, because room keys change hand on a day-to-day basis, which presents cash flow unpredictability. Brookfield tends to prefer the more stable real estate "food groups," where cash flows are steady and predictable through long-term leases.

Brookfield saw an opportunity to purchase an iconic, sprawling beach resort in the heart of southern Florida, with 1,000 rooms, second only to the equally iconic Fontainebleau Hotel on the South Beach strip.

This is where things get interesting. Brookfield bought the property for a low-ball price of \$210 million in

2014 and put in \$100 million for renovations, making the total cost around \$310 million. For the last five years, the Diplomat has no doubt provided Brookfield with millions of dollars in annual room rent that have flowed through to adjusted earnings and ultimately free cash flow.

What's more, the price tag being thrown around for the Diplomat is a cool \$1 billion. A potential buyer could be real estate developer Jeff Soffer, who owns the famed Fontainebleau Hotel. This makes the buyer strategic and gives the deal a greater chance to go through at a good price. The buyer has every incentive to grab the Diplomat and, with the Fontainebleau, create a virtual monopoly on South Beach.

Assuming the \$1 billion price is in the ballpark, this would roughly represent a tripling of the company's initial investment five years ago. In private equity parlance, a three times "money multiple" in five years is exactly what smart investors like Brookfield live for. The gross return on their opportunistic investment would be around 25% per year, which is amazing.

The sale hasn't happened yet, so we will all have to stay tuned, but this is a great example of Brookfield's capital-recycling strategy, which makes significant money for its shareholders.

Foolish bottom line

When I last wrote about Brookfield Property Partners in early September and the stock price was hovering around \$25 at that point. The stock price is still around the same mark now, which means smart investors can start accumulating a position and pick up additional shares through a dividend-reinvestment plan to build a sizeable and profitable position over time.

The company had its annual investor day in late September and reminded investors that its goal is to grow net operating income by 2-3% annually, which should translate into regular dividend increases and capital value creation as properties that generate more income are inherently more valuable.

There are very few long-term-oriented stocks that have the [size and scale to be able to be competitive globally](#) and with \$200 billion in assets under management, Brookfield Property Partners is one of them.

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