This REIT Yielding 7% Is a Top Buy for 2020

Description

Real estate investment trusts (REITs) have soared in popularity in recent years because of near historically low interest rates leading to low yields from traditional income producing assets such as bonds.

As a result, many Canadian REITs have performed strongly since the start of 2019, with one of my top picks, **Dream Industrial** gaining a notable 40%, making it one of the best performers in its sector.

One REIT that's failed to perform but appears very attractively valued while paying a regular distribution yielding over 7% is **Brookfield Property Partners** (TSX:BPY.UN)(NASDAQ:BPY), which has risen by a paltry 8%. There are signs that the REIT is heavily undervalued and will deliver significant value for unitholders during 2020.

Quality assets

Brookfield Property owns a globally diversified portfolio of retail and office real estate that includes several world recognized marque properties such as Principal Place London, Brookfield Place New York and Fashion Show Mall Las Vegas.

The partnership has a proven history of unlocking value from its property portfolio. For the nine months ending 30 September 2019, it reported that net operating income had grown by an impressive 23% year over year to US$3.3 billion, while company funds from operations (FFO) shot up by a very healthy 27% to US$966 million.

Despite that notable performance, however, Brookfield Property's bottom line for the period softened, plunging by 35% compared to a year earlier, primarily because of mark-to-market losses on derivatives and fair value losses on its properties.

Since 2014, Brookfield Property's company FFO has grown at a steady clip to have a compound annual growth rate (CAGR) of 8%, allowing it to grow its distribution at a CAGR of 6%.

The partnership has hiked its distribution for the last six years to be yielding a very juicy 7%, which is significantly higher than the yields of traditional income producing assets such as bonds and cash.

For the trailing 12 months to the end of the third quarter 2019, the distribution has a payout ratio of 97% of company FFO per diluted share, indicating that it's sustainable, particularly when considered that it will fall as FFO expands.

It should be noted that Brookfield Property's company FFO doesn't include income earned by its LP Investments division. When that's included, the payout ratio falls to a conservative 70% for the last 12 months.

The partnership also offers a distribution reinvestment plan (DRIP) where unitholders can use the payment to acquire additional units at no extra cost, allowing them to access the power of compounding and boost their returns.

Brookfield Property is a very attractive investment because it's trading at a deep 49% discount to the average analyst net asset value (NAV) of $35.53, thereby highlighting the considerable upside available.

The business has a large US$11.6 billion development pipeline comprising office, residential, hotel and retail properties under development.

Many of those developments are expected to be completed between the end of 2019 and 2023. They will boost earnings and company FFO as the projects are completed and commissioned.

While Brookfield Property's balance sheet is heavily levered, it can access considerable capital via its relationship with **Brookfield Asset Management**.

It's also focused on reducing its long-term debt, which by the end of the third quarter was US$46 million, or 21% lower than it had been at the end of 2018.

Foolish takeaway

Brookfield Property offers a compelling mix of capital appreciation, because it's trading at a significant discount to its NAV, and a sustainable distribution yielding a very juicy 7%.

When coupled with its solid growth prospects, growing earnings and its notable defensive characteristics, including a wide economic moat, now is the time to add Brookfield Property to your portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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1. Business Insider
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