This Real Estate Stock Can Skyrocket in 2020

Description

The coronavirus has shocked the globe. Millions of people are out of work. Governments are spending like never before. Stock markets experienced a brief but startling plunge. Even real estate, traditionally a safe haven, has taken a hit.

But all is not lost. Even if the crisis lasts for several years, many assets will retain their worth. Property is a prime example. As the saying goes, it's the only thing they're not making more of.

Investing in real estate can be a great way to protect your portfolio from another bear market or a spike in inflation. Yet these companies aren't all about downside protection. When done right, real estate stocks can help your portfolio skyrocket in value.

Just take a look at **Brookfield Property Partners** (TSX:BPY.UN)(NASDAQ:BPY). Despite owning some of the most iconic properties in the world, shares trade at a 70% discount to their intrinsic value. If the world returns to normal quicker than expected, this is the stock you want to own.

Trust this real estate

Brookfield stock hasn't always been this cheap. In 2016, shares traded at 80% of book value. Today, they're valued at 30% of book value. The market thinks that the assets are worth significantly less than what the balance sheet implies.

There's no doubt that the coronavirus has had an impact on the company's asset values. Roughly 80% of Brookfield's real estate portfolio consists of retail and office properties. Physical foot traffic at retail locations has plummeted. Many major tenants could go bankrupt this year. Offices, meanwhile, have been emptied out. A significant portion of the population could work remotely for years to come. Many will never return to the office.

So, here's the question: is Brookfield's portfolio worth two-thirds less than it was in 2016? Let's look at the facts.

On May 8, the company reported first-quarter earnings. Revenue was down 27.3% year over year, missing analyst expectations by a whopping $510 million. Cash flow, however, was resilient at $0.33 per share. How was this possible?

Brookfield's retail real estate (40% of assets) saw an 80% drop in rental income. Office real estate (40% of assets) only saw a 10% reduction in collections. The remaining 20% of Brookfield's assets was similarly strong.

So, yes, the company is experiencing sudden pain, but it's largely relegated to one segment of its portfolio. But conditions are picking up for Brookfield's retail assets. Management recently revealed that it's already opening 50 of its U.S. retail centres.

"It's encouraging that we are closer to a return to normal than we thought possible even just a few weeks ago," executives said.

Should you buy Brookfield stock?

Because the company focuses on world-class property in high-demand areas, a return-to-normal situation should see the stock's valuation revert significantly higher. Before the crisis, Brookfield was selling assets for *more* than their stated book value. The current price allows you to buy in at a 70% *discount* to that book value.

As long as the office segment of the portfolio continues to generate rental income, the business should survive. To profit, all investors need to do is wait.

How long until conditions normalize? No one knows. It could be months or even years. But buying now ensures you lock in this bargain price.

Even Brookfield's management team knows that its real estate portfolio is trading at a ridiculous valuation.

"Our unit price has declined dramatically over the past two months and today trades at a price that is disconnected from the performance of our underlying assets," executives explain. "While we remain conscious of the importance of capital preservation, we were active in buying back our units throughout the first quarter, over $100 million in total."

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Coronavirus
2. Dividend Stocks
3. Investing

Date
2025/08/21
Date Created
2020/05/24
Author
rvanzo