Brookfield Property (TSX:BPY.UN) Records a Stunning $1.5 Billion Loss

Description

Brookfield Property Partners (TSX:BPY.UN)(NASDAQ:BPY) is the commercial real estate wing of the **Brookfield Asset Management**. The company markets itself as one of the few truly globally diversified real estate vehicles currently available to investors. As of 2019, the company had properties under management in Canada, Europe, the Middle East, Brazil, Asia Pacific, and the US, where the bulk of its properties is situated.

The total assets under management of the company are worth US$202 billion. The properties are broken down into two major pieces: the company's core property portfolio, which comprises 134 premium office properties and 122 malls, and urban retail properties. The second piece is LP investments, including multifamily units, hospitality, self-storage, logistics, and student housing properties.

Despite substantial diversification in asset classes and geography (even though the portfolio is partial to the U.S. market), the company reported a US$1.512 billion loss in the second quarter. This indicates how multifaceted the adverse impact of the pandemic is.

The second-quarter results

The dismal picture that the second-quarter results portrayed can easily be chalked up to the pandemic and its staying-at-home repercussion. Malls are closed, people aren't checking into hotels because travel is restricted and limited, and many offices have either gone partially or fully toward working from home model. However, offices aren't the real cause of Brookfield's decimated revenues because they usually have long-term leases.

Management of the company stated that the hospitality business took the hardest hit. In just the second quarter, the company lost $78 million from property closures in the hospitality space. The NOI dropped by US$304 million and FFO by US$121 million from 2019's second quarter. The bulk of the loss can be attributed to fair value losses in the company's core retail and core office portfolios.

The company has taken some new initiatives to continue running its business despite the pandemic.

This includes bringing drive-in theatres to some of the mall parking lots, using parking lots for outdoor dining, and teaming up with a company that can help set up 3D scanners in some malls under Brookfield's management, so people can find their sizes without trying the clothes on.

The management is optimistic about the office sector's eventual recovery, stating that working from the home model will not impact the demand for office spaces.

Should you buy it?

Brookfield is currently trading at $16 per share, about 31% down from its start of the year, which is steep even for a stock that wasn't a grower in the first place. The company has been growing its dividend for the last five years, though not substantially enough. And it had never slashed its payouts in the previous five years, even when the payout ratio exceeded 485% in 2017.

Currently, Brookfield is offering an enormous yield of 11.3%, making it enticing enough. But the question is whether or not Brookfield will be able to sustain these dividends going forward, with its earnings going downhill at a crazy pace.

The core office and retail portfolio still show decent occupancy rates, 92%, and 95%. The hospitality end of the company will start recovering along with the economy.

Foolish takeaway

Brookfield is currently offering a once-in-a-lifetime kind of yield. It's not a small company going downhill. It's a massive real estate empire that's absorbing the impact of a worldwide pandemic.

At its current undervalued, highly discounted price, Brookfield might be a great buy, but remember that there is a genuine possibility of dividends being slashed. The company doesn't offer much in the way of capital growth.

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