Why Brookfield Property (TSX:BPY) Stock Jumped 18% Yesterday

Description

Brookfield Property Partners (TSX:BPY)(NASDAQ: BPY) surged 18% yesterday to close at a 10-month high. The stock is now up 132% since its March low. However, investors shouldn't expect much upside left. Here's why.

Brookfield takeover

Brookfield Property is a subsidiary of Canadian investment giant **Brookfield Asset Management** (TSX:BAM.A)(NYSE:BAM). This subsidiary was focused on an asset class that has been particularly hard hit by the pandemic – commercial real estate.

Global lockdowns and a bitter recession have cut foot traffic at the company's malls and offices. This, in turn, has meant lower rent collection throughout 2020. The stock fell so aggressively in March that it was trading at just 25% of book value per share at one point.

Since then, the company has raised capital and shored up its balance sheet. The stock price steadily climbed higher, but was still trading below book value. Now, the parent company has decided to take it private. BAM is offering $16.50 per share in cash to acquire 100% of all outstanding shares of BPY.

This is why the stock jumped 18% yesterday. Investors are confident the deal will go through and BPY will eventually be delisted from the stock exchange.

Impact on investors

The impact of this move varies depending on your position as an investor. For investors who got in early, this acquisition validates their thesis that BPY is worth *at least book value.* The fact that the parent company is swooping in to take it private at a premium to market price is a good deal.

However, for income-seeking investors who were expecting BPY’s lucrative 7% dividend yield, this is bad news. After the takeover, finding another dividend stock with similar reliability and yield is going to be difficult.

For investors with no exposure, this move puts a floor on all real estate investment trusts. Any other commercial REIT trading below book value could be similarly acquired. Stocks like **RioCan** and **Slate REIT** jumped yesterday but are still trading far below book value.

RioCan has a comparatively better portfolio with a little exposure to residential real estate too. The stock offers an 8.7% dividend yield and trades at a 32% discount to book value. Similarly, Slate offers a 9.6% dividend yield and trades at a stunning 53% discount to book value.

These could be worth a closer look if you’re seeking a contrarian opportunity.

Bottom line

Brookfield Property Partners has had an eventful year. Investors were genuinely spooked when they saw the company’s portfolio of iconic properties abandoned when the pandemic erupted. However, the stock looked like an easy contrarian bet when the vaccine was created and the economy started rebounding.

Unfortunately, investors won’t participate in much of the upside over the next decade. Brookfield’s parent company is delisting the stock. Although the takeover offer includes a minor premium, it’s not enough to cover the potential profits investors would have enjoyed otherwise.

Nevertheless, other REITs such as RioCan and Slate offer similar prospects and could be worth a closer look.

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